Journal of the European Union Chamber of Commerce in China

EURObiz

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ICT in China: Opportunities and Barriers

HERA SIU
Heralding an Era of IT Best Practices

HITTING THE TARGET
Marketing Luxury Goods in China

GOING MOBILE
Electronic Payments Get Moving

CHALLENGING OUTSOURCING'S CHAMPION
China Prepares to Take on India

THE EXECUTIVE INTERVIEW
Duncan Clark, BDA China

European Chamber
中国欧盟商会

TABLE OF CONTENTS

Journal of the European Union Chamber of Commerce in China

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Back to Business

Mr. Davide Cucino
President of The European Union
Chamber of Commerce in China

Dear Members and Friends of the European Chamber:

As summer holidays come to a close, the European Chamber is hitting the ground running.

By the time this issue of EURObiz reaches you, we will have launched our most important publication of the year, the *European Business in China Position Paper 2011/12*. The *Position Paper* represents the views of the European Chamber, and is a compilation of the latest assessments, concerns and recommendations of European businesses operating in China. We hope that it will continue to promote constructive dialogue and co-operation between Europe and China, at both the political and business levels.

Beginning in mid-September and continuing into October, representatives from the Chamber's Working Groups, along with members of the Executive Committee and staff will travel first to Brussels and then to other major European capitals for our annual European Circuit lobbying trip. This provides the Chamber with a unique opportunity to present the *Position Paper* to European Commissioners and Members of the European Parliament as well as our industrial partners and business associations, along with relevant officials of EU member states.

In late October, the Chamber will welcome leaders from both the European Union and China at the 2011 EU-China Summit, to be held 25th October in Tianjin. Once again we will have the opportunity to host top European officials including European Commission President Jose Manuel Barroso and European Commissioner for Trade Karel De Gucht. The event will include both a political and business summit, with the European Chamber serving as one of the Summit's organisers. We look forward to having the opportunity to raise numerous issues directly with Chinese and European leaders. Once again we will have the occasion to propose a roadmap for moving towards a business environment in China that operates on a level-playing field for all companies, domestic and foreign alike.

In this issue of EURObiz, we place the industry focus on Information and Communcations Technology (ICT), an area where China represents exceptional potential, yet European companies are still not fully engaged, due in part to market barriers, to market maturity, and in some cases to stiff competition from both domestic and other foreign players.

As we all return to work, I wish you great success in business and all your ventures.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with the European Commissioner for Trade, Karel De Gucht

European Commissioner for Trade Karel De Gucht (center) addresses European Chamber Advisory Council members, flanked by President of ABB North Asia and China Claudio Facchin (left) and Chief Representative of BASF China and former European Chamber President Joerg Wuttke (right).

On 7th July, members of the European Chamber's distinguished Advisory Council had dinner with the European Commissioner for Trade, Karel De Gucht, during his visit to China for bilateral meetings with the Chinese Minister for Commerce, Chen Deming under the EU-China Joint Committee mechanism.

During the dinner, 20 senior representatives of Advisory Council member companies were able to freely raise and discuss various issues with Commissioner De Gucht. These topics included the WTO ruling on raw materials, the proposal for a bilateral investment treaty between China and the EU, the EU sovereign debt crisis, concerns about the use of Chinese subsidies, issues regarding re-investments and numerous general Chinese market access issues. The dinner meeting also provided the opportunity for Commissioner De Gucht to brief Advisory Council members on the Joint Committee meeting with MOFCOM Minister Chen Deming.

Three Meetings with the Vice Chairman of the Committee of Foreign Affairs of the Chinese People's Political Consultative Conference (CPPCC), Ma Xiuhong

Over the course of less than a month, representatives of the European Chamber were able to meet with the Vice Chairman of the Committee of Foreign Affairs of the Chinese People's Political Consultative Conference (CPPCC), Madame Ma Xiuhong, on three occasions.

Accompanied by officials from MOFCOM as well as representatives of the China Chamber of Commerce for Import & Export of Machinery and Electronic Products, the former MOFCOM Vice Minister met with a delegation of European Chamber representatives led by Vice President Miroslav Kolesar on 20th June. The two sides exchanged views on various issues including the Position Paper and the green development of China.

Madame Ma also met representatives from 29 member companies in Shanghai on 1st July. Following Madame Ma's speech on the new features of China's foreign trade policy in the 12th Five-Year Plan period, European Chamber representatives, led by Vice President and Chairman of the Shanghai Board, Piter De Jong, held an active discussion with Madame Ma on issues relating to European investments and company operations in China.

Finally, Chamber Vice President Jens Ruebbert met with Vice Chairman Ma at a roundtable meeting on the development of green low-carbon industries organised by MOFCOM. At the meeting also attended by officials from NDRC, MOST and MEP, Vice President Ruebbert spoke about the ability of European companies to greatly contribute to the 12th Five-Year Plan aims, to move towards more sustainable and green development and also raised issues regarding challenges presented by Chinese policy that obstruct European industry market access in green technology areas.

Representatives of the European Chamber meet with Madame Ma Xiuhong,
Vice Chairman of the Committee of Foreign Affairs of the Chinese People's Political Consultative Conference.

Meeting with European Commission Director General for Mobility & Transport, Matthias Reute

On 17th July, Matthias Reute, Director General for Mobility and Transport of the European Commission and a delegation of officials from the Directorate General met with European Chamber President Davide Cucino and representatives of the Logistics, Aerospace, Aviation, Maritime and Rail Working Groups. The meeting focused on the development of the transport sector in China. Among the issues discussed were developments in the rail sector, the inclusion of aviation into the EU Emissions Trading Scheme, China's future plans regarding maritime transport and general Chinese market access issues concerning the transport sector.

Submission of a Lobby Letter to the State Administration of Foreign Exchange (SAFE) Commissioner, Yi Gang

On 14th July, the European Chamber sent a lobby letter signed by President Davide Cucino to the Commissioner of the State Administration of Foreign Exchange, Mr. Yi Gang, with the Minister of Commerce, Chen Deming; the Minister of Finance, Xie Xuren; and the Commissioner of the State Administration of Taxation, Xiao Jie, all in copy. The European Chamber expressed its deep concern about the implications of the SAFE Circular [2011] No. 7 implementation guidelines for re-investment by Chinese holding companies. The letter concluded that the European Chamber believes that this Circular goes against the declared intention of the Chinese government to encourage investment through foreign-invested holding companies in China.

Other Lobby Highlights in Brief

Since mid-June, during the usually quiet two months of July and August, the European Chamber held almost 30 meetings with the Chinese government at various levels and with differing Chinese ministry-level administrations and organisations. The Chamber also submitted six comments on draft Chinese regulations, as well as 10 lobby letters to the Chinese government. During the same period, the European Chamber met on 14 occasions with officials from European Union and Member State governments.

Most of these meetings were held at the working level and arranged through the Chamber's various Working Groups. At the Chinese side, financial services-related working groups for banking and consumer finance worked respectively with the Chinese Banking Regulatory Commission (CBRC) and the State Council Legislative Affairs Office (SCLAO). The European Chamber's Banking Working Group cooperated with the EU-China Trade Project to organise a study visit for CBRC officials to Europe; and following the submission of a report on consumer finance to SCLAO in July, the European Chamber's Consumer Finance and Non-Banking Financial Institutions Working Group, led by Chamber Vice President Miroslav Kolesar, met with Dr. Zhang Jiandi, the Division Director of SCLAO's Department of Financial Affairs to discuss the development of the consumer finance industry in China and to offer assistance to the formulation of new regulations in this field.

On 30th June, the European Chamber's Lighting Working Group met with Deputy Director of the Ministry of Industry and Information Technology (MIIT), Ding Wenwu, to understand recent policy and standards developments in the LED sector and to raise concerns to Deputy Director Ding. On 14th July, the Healthcare Equipment Working Group met with the Pricing Department of the National

Development and Reform Commission's Medicine Pricing Division to discuss the Pricing Management Measures for Implantable (Interventional) Medical Devices and to offer suggestions on the direction of medical devices pricing policy in China. At the local level, the Healthcare Equipment Working Group, again led by co-Chair Camon Sin, met with the Beijing Healthcare Bureau to discuss tendering related issues.

Other meetings at the local level with Chinese officials included a meeting with the Jiangsu Foreign Affairs Office (FAO) by representatives of the Nanjing Chapter. Helmut Guesten, Chairman of Nanjing Board of the European Chamber led the meeting with Deputy Director-General of the Jiangsu FAO, Zhang Lirong, to present the Chamber's Business Confidence Survey. The fruitful dialogue with Mr. Zhang focused on topics including the Social Insurance Law and power shortages in the province. In Guangzhou, the Chairman of the PRD Board of the European Chamber, Holger Kunz, led a delegation of members to a meeting with the Deputy Director General of the Exit-Entry Inspection & Quarantine Bureau of Guangdong Province (GDCIQ) to propose the establishment of several working groups between European Chamber member companies and relevant divisions at GDCIQ on topics of product safety, product quality and consumer safety, and environment management. In Shanghai, various members of the Shanghai Board and Advisory Council members met with the Shanghai Municipal Commission of Commerce (SCOFCOM) on 10th June; and on 8th August, members of the Cosmetics Working Group met with Xie Minqiang, Deputy Director General of the Shanghai Municipal Food and Drug Administration to discuss the proposed Cosmetics Leger Pilot Scheme.

At the European level, the Chamber had many meetings of note during the months of June, July and early August with European Commission authorities. Representatives of the Chamber's CSR and HR Forums met with George Fischer, Director of Social Affairs and Inclusion of the Directorate General for Employment on 7th July to brief Mr. Fischer on the current situation, developments and issues in relation to HR and CSR in China. On 24th June, European Chamber representatives from the Aviation and Carbon Market Working Groups met with the Adviser of International and Climate Strategy of the Directorate General for Climate Action, Juergen Lefevere, to discuss the EU Emissions Trading Scheme; and on 23rd June, the European Chamber received a delegation from DG Trade and DG ENTR led by Mr. Peter Klein, the Head of Unit for Industrial Sectors of DG Trade. Chairs and Vice Chairs of the ICT, Energy, Renewable Energy, Smart Grid and PCR Working Groups attended the meeting where Mr. Klein debriefed the Chamber on his meetings with Chinese counterparts over the course of his visit to China on industrial policies for rare earths, raw materials, semiconductors and steel. Chamber representatives shared information with Mr. Klein on recent market developments and expressed their various concerns about market access issues within their sectors in China.

The European Chamber welcomes the Polish Presidency of the Council of the European Union. Within the space of a few days before the accession of the Republic of Poland to the Presidency on 1st July, the European Chamber was honoured to be invited by the Consul-General of Poland in Guangzhou, Mr. Krzysztof Ciebien to lunch and dinner meetings. At the meetings on 27th and 28th July, representatives of the Chamber met with both the Ambassador of the Polish Embassy, H.E. Tadeusz Chomicki and the Ambassador of the EU Delegation, H.E. Markus Ederer. On 29th June, the Chamber was delighted to receive Mr. Grzegorz Gawin, Director of the Department of Economic Diplomacy of Poland's Ministry of Foreign Affairs where issues concerning the Chinese market and market access barriers for European companies were raised.

Media Highlights in Brief

Although the European Chamber did not stage any press conferences, nor release any publications since mid June, the Chamber still received high levels of media exposure. Since June, the Chamber has been referenced in over 70 news pieces from international first-tier printing media outlets including the Financial Times, Bild, Forbes, the Daily Telegraph and the Wall Street Journal and in various newswires, including Reuters, the Associated Press and Agence France-Presse. The Chamber was also referenced in various Chinese media outlets, including the 21st Century Business Herald, Xinhua, the People's Daily and Caijing.

The media exposure was led in part by a press release that the Chamber issued on welcoming the Ministry of Finance's repeal of three indigenous innovation related policies, as well as through comments provided to the Wall Street Journal on the WTO's ruling on China's export quota for raw materials, to the bi-weekly magazine of the 21st Century Business Herald on China's new social insurance law and to the Wall Street Journal on the moves to lower import taxes on luxury goods. Eb


DELUXE REVIVED
SUITES AT THE PEACE
Fairmont
PEACE HOTEL
和平飯店

Knocking on China's Door

A dominant player in the global travel industry, Amadeus IT Group SA had just under €2.5 billion in revenues for 2010. Despite being the leading provider of computerised reservation systems (CRS) in the global travel industry, regulation still bars the company's full participation in China. EURObiz's **Steven Schwankert** spoke with Amadeus CEO **Luis Maroto** about the company's approach to the China market and its barriers.

EURObiz (Eb): Please tell us about Amadeus' core business areas.

Luis Maroto (LM): Amadeus is a leading technology provider and transaction processor to the global travel and tourism industry. Essentially, we have two main businesses: Distribution and IT Solutions.

On the distribution side of the business, we operate a business-to-business electronic marketplace bringing travel agents and travel management companies together with airlines, hotels, train operators, cruise lines, car rental companies, ferry operators, travel insurance companies and tour operators. We are the largest global transaction processor in the travel industry.

We are also the world's leading provider of IT solutions for the travel industry for customers such as airlines, hotels, travel agencies and more.

Amadeus has around 10,000 staff with a corporate headquarters in Madrid and regional offices in Miami, Buenos Aires, Bangkok and Dubai. At a market level, Amadeus maintains customer operations through 73 local Amadeus Commercial Organisations, covering 195 countries.

Eb: What specific challenges does Amadeus face in China? How do you address those challenges?

LM: China is the world's largest and fastest growing travel market and represents a huge opportunity for the travel industry.

Market restrictions in China do not allow international Global Distribution System (GDS) providers to operate their distribution systems in Chinese travel agencies or issue tickets.

The local Computer Reservation System (CRS) in China, TravelSky, is state owned and the sole reservation system allowed to issue tickets in China.

This effectively eliminates any competition and leaves TravelSky with a de facto monopoly carrying almost 99% market share. Because TravelSky operates as a monopoly in China, both domestic and international airlines must use this system for the distribution of almost all of their products. This situation is detrimental to the interests of both foreign and Chinese airlines, as well as travel agencies operating in the market and limits the natural development of the travel industry in China. Any airline, travel agency or travel supplier should have the freedom to choose its preferred GDS or technology provider. This isn't the case in China today.

Over the past few years, we have been working with the European Chamber and the European Commission (EC) to bring this issue to the attention of the Chinese government and the Civil Aviation Administration of China (CAAC), the Chinese aviation regulator. The CAAC is now considering easing restrictions which currently bar foreign GDSs from participating in China, by introducing draft CRS regulations that would potentially liberalise the highly regulated travel distribution system environment in China, which in turn could lead to profound changes in the travel distribution landscape in China.

This is a small move in the right direction by China. However, even if the draft regulations are finalised and promulgated into Chinese law, it does not give foreign GDSs what they need in terms of market access in accordance with China's World Trade Organisation's (WTO) commitments, and a lot more progress will be needed to truly open the market.

Eb: What made the company choose Bangkok as its Asia regional headquarters?

LM: We have a long-term commitment in Asia Pacific, and will continue to solidify and build on our market leadership position. We established our regional Asia Pacific headquarters in


Amadeus IT Group SA CEO Luis Maroto.

Bangkok in 1995 and now have the largest geographic reach of any travel technology provider in Asia Pacific, with over 1,600 trained personnel looking at 39 markets across the region, servicing travel agencies, corporations, airlines and other areas of the travel industry. Indeed, in 2010 Amadeus processed close to 58 million travel agency air bookings; that is close to 14% of our global travel agency air bookings.

When we were considering a location for our regional Asia Pacific office, it was common at that time for many global organisations to set up their regional hubs in countries other than Thailand. Taking into account our close partnership with Thai Airways, our strategy was to look beyond the present and recognise the growth potential in Thailand.

Eb: What does Amadeus bring to the China market and how does this relate to China's 12th Five-Year Plan?

LM: China's leadership has often stated its desire to transition from growth based primarily on exports to a more sustainable model, based on the concepts of balanced growth, innovation and a harmonious society. One of the broad aims of China's 12th Five-Year Plan is to boost domestic consumption by increasing the service sector's contribution to GDP by four percentage points, rising from 43% to 47%.

We can clearly see the Chinese government's commitment to the growth of travel and tourism, coupled with the desire to increase consumer demand. This has led to the rapid development of world class airports, roads, a high-speed rail network and a rapidly expanding supply of hotels. Apart from expanding physical infrastructure to support the growth of the Chinese industry, China also needs to enhance the technology infrastructure that permits travel agencies to make travel searches and bookings on airlines and other travel providers.

Currently, we power the international websites of all four major Chinese carriers to enable booking functions for international flight reservations. The opening of the market would potentially mean we can explore domestic and inbound flight reservations both from travel agencies and via the web.

We hope that the draft CRS regulations will be released by the CAAC which will lead to the true opening of the GDS market in China. Since China's accession to the WTO in 2001, China has already replaced Japan as Asia Pacific's largest aviation market. China is the only remaining market (with the exception of North Korea) where foreign GDSs do not operate.

Eb: What kind of opportunity do you believe the draft CRS regulations may provide to Amadeus?

LM: The global airline industry expects China to be the biggest contributor of new air travellers by 2014. Of the 800 million new travellers expected in 2014, 360 million (45%) will travel on Asia Pacific routes and within those 214 million will be associated with China (181 million domestic and 33 million international passengers). These figures demonstrate that the size of the market is big enough for more than one global distribution provider.

We hope that the draft CRS regulations will be released by the CAAC which will lead to the true opening of the GDS market in China. Since China's accession to the WTO in 2001, China has already replaced Japan as Asia Pacific's largest aviation market.

China is the only remaining market (with the exception of North Korea) where foreign GDSs do not operate. A recent Phocuswright study, "GDS Deregulation and the State of Travel Agency Technology in China" details the technology gap as well as the business practices gap between the sole Chinese CRS and other foreign GDS providers.

We hope that the Chinese government will realise that providing equal market access and a level playing field for foreign GDS players will be good not only for the Chinese consumer, airline and travel industry, but will also help China enhance travel as a service sector, increase domestic consumption and ultimately help China achieve the needed transition to a more balanced economic growth model.

Eb: What role can Amadeus play in the opening up of China's Computerised Reservation System industry?

LM: With the potential regulatory changes in the GDS market and subsequent steps in the right direction to provide foreign GDS true market access and a level playing field, Amadeus hopes to contribute to the technology infrastructure that will empower travel agencies to use new generation technology to make bookings on airlines and other travel providers in China. As a result of China's high internet growth with China's 485 million internet users, consumers are increasingly going online to explore their travel options.

During the first half of 2011, Chinese national carrier Air China announced a three year contract extension for the Amadeus e-Retail Internet Booking Engine. Currently Air China uses the solution to cover 28 international markets across Asia, Europe and North America.

Keeping databases up-to-date and accurate is an extremely technically demanding activity. We often hear that when users in China obtain information about air ticket availability, it isn't there when they try to book it. This suggests that there are issues with the reliability of the website information. The Amadeus data centre is the world's number one processor of travel transactions and can process over one billion transactions per day, resulting in over three million net bookings.

We hope the eventual opening of the China CRS market will allow Amadeus to play a key role in developing both the online and indirect travel market in China, as we have done in India – a booming market for online travel. This is where India, despite its poor physical infrastructure for travel, through a much more liberalised policy regarding foreign GDSs, has achieved a truly vibrant and booming travel market. According to Phocuswright, over 90% of bookings processed by the leading Indian online travel agency Make My Trip are made completely online, compared to Chinese online market leader CTrip, where 80% of bookings are still manual and made through a call centre.

Eb: Please tell us about Amadeus' evolution from a GDS to an airline IT service provider.

LM: In the year 2000, Amadeus took the decision to move from being solely a distribution system into a transaction based technology provider for the whole travel industry.

Whilst the GDS part of the business gives us global reach and massive efficiency, our IT Solutions arm gives us additional synergies where we can leverage our travel industry knowledge. Combined together, the businesses are greater than the sum of their parts, which improves our offering and strengthens our position.

Our current global market share of travel agency air bookings has grown from 29% in 2004 to around 37% in the first half of 2011. Our airline IT platform, Amadeus Altéa suite for airline reservation, inventory and departure control systems has grown from 0% to 28% market share since we launched with Qantas and British Airways in 2001. Today we have over 110 airline customers contracted to Altéa.

If China opens CRS regulations and removes all regulatory obstacles to allow foreign players like Amadeus to operate in China, it will be the start of a long journey.

Eb: How is the company performing overall in these challenging times?

LM: We just announced out financial results for the first half of 2011 (six months ended 30 June, 2011) and it has been a positive and active first half of the year. At an operational level, both our Distribution and IT Solutions businesses continued to grow and in particular had significant successes in the Asia Pacific region, adding further visibility to our future growth.

Amadeus Asia Pacific also won the prestigious 2011 Airline IT Solutions Provider of the Year Award from Frost & Sullivan, which recognises innovative best practices in the aerospace and defence industry.

Eb: In your role as CEO, how do you feel Amadeus' situation in China is proceeding?

LM: China is a key growth market globally and we hope it will play an important part in our future.

If China opens CRS regulations and removes all regulatory obstacles to allow foreign players like Amadeus to operate in China, it will be the start of a long journey.

China first claimed to liberalise the Chinese CRS sector during its accession to the WTO in 2001. However, let's not forget that Chinese airlines are still not allowed to benefit, like foreign airlines, from the most advanced technology provider for their travel distribution in China.

I hope that once the market really understands how advanced technology can truly drive the development of such an important service sector as the airline and travel industry, that Chinese airlines will also want equal access to the same advanced technology and distribution option as the foreign airlines serving China.

Since Deng Xiaoping's oft-cited instruction that China's progress of reform and opening to the world should be "like crossing the river, feeling one stone at a time," gradualism has been the model of Chinese governance. While gradualism towards market liberalisation has proved highly effective in the early stages of China's post-1978 marketisation, clinging to a strict gradual approach will be a serious hindrance to the natural development of the travel and tourism industry. Today, foreign and Chinese airlines alike can benefit from the travel distribution offerings of Amadeus in more than 195 countries outside of China. We hope to be able to offer local travel agencies the same technology that their international peers have been enjoying for over 20 years.

Let's hope that we can "cross the river" at a much faster pace to ensure that the Chinese travel and tourism industry truly realises its potential, through the advanced technology that companies like Amadeus can offer China. Eb

SAP China President Hera Siu.

Heralding an Era of IT Best Practices

Solutions developer SAP is one of the few global software players to have emerged from Europe. As the company prepares to hold its biggest global customer event in Beijing in November, EURObiz's **Steven Schwankert** talks with SAP China's President **Hera Siu** about best practices and determination to shatter the glass ceiling.

EURObiz (Eb): What kind of companies is SAP targeting in China?

Hera Siu (HS): In China, we are committed to helping all Chinese companies become best-run businesses. Hence we always target those companies that are inspired to become better, grow stronger and those that are determined to reach their business goals. All the companies that choose to work with SAP also believe in innovative business solutions. They understand and trust that only a mature, stable and scalable IT infrastructure and environment can make business "challenge ready" and "change ready". SAP's solutions are fully localized – which means they are either developed locally in China, or modified based on Chinese customers' business needs. We now provide a 24x7, Mandarin Chinese service hotline to our customers, completely removing language as road blocks to uninterrupted customer support.

Helping customers become best-run businesses is already working at SAP China. This year, SAP China has achieved its highest-ever sales revenue for two consecutive quarters and its best-ever half-year result.

Eb: What products are finding greatest traction here?

HS: Aside from SAP's top-selling Business Analytics and Business Process products, our Mobility solutions and HANA (In-Memory Technology) have definitely earned enormous traction in China and all over the world since last year. After we acquired Sybase in 2010, along with our partners in the ecosystem, SAP now offers a full array of mobile applications and underlying infrastructure, with unmatched integration to SAP systems, for secure access to business processes anytime, anywhere and on any device.

China has the largest number of mobile users in the world. Mobile devices becoming handy tools for real-time critical tasks and decision making has become unavoidable.

SAP HANA appliance software realizes the power of real-time analytics and real-time applications, which can analyze massive amounts of data up to 3600 times faster than traditional databases. This next-generation innovation can drive business opportunities enterprises once considered impossible. In China, many of our customers have expressed their interest in HANA; some have already started implementation.

Eb: How are the requirements of Chinese companies different from the multinational corporations you are supporting here?

HS: In time, we see less and less difference between Chinese and multinational corporations when it comes to employee numbers, business models and revenue sizes. However, as many Chinese companies are expanding their business into global markets, level of business complexity increases with time. This is because these companies often have to comply with different government policies, modify their products/services for different market characteristics, and face various risks associated with international business operations. SAP's job is to stand by our Chinese customers, act as their trusted advisor and provide them with the business solutions they need to grow securely and sustainably, both in China and globally.

Eb: Are products like customer relationship management and enterprise resource management still as foreign a concept as they were when SAP first established itself in China?

HS: Not anymore. Most Chinese companies already view these as the basics or "must-have" for a company's operation. They now are looking into innovations that can help them excel and succeed in their areas of business, such as SAP HANA and Mobility solutions, or sometimes even co-innovations for those solutions that can best meet their specific business needs.

Eb: Is there a particular advantage to being a European software company in China?

HS: SAP has grown to become a multinational company with high level of localization in each market. Here, we do not regard ourselves as "SAP in China" or "a European software company in China". Instead, we are SAP China with the advantage of being able to bring its best practices from all over the world to its Chinese customers. This mentality helps us fully localize our business operation, solutions and services. Our employees are mostly Chinese which also help us gain deeper insights to the market.

Eb: What do you see as new sources of growth in China?

HS: Earlier this year, SAP China announced to drive the company's growth in four different directions: large enterprises, small and medium enterprises, emerging strategic industries and specialty solutions. Large enterprises have always been one of the revenue sources for us in China. We have now grown substantially in the SME segment with the introduction of B1, industry-based packaged solutions and Business ByDesign. We have further strengthened our channels and partners ecosystem. There are also few industries we believe to possess enormous growth potential in China, such as healthcare and financial services. We have a team of experts with industry insights that can best assist customers in these emerging industries. Last but not least, our specialty solutions such as CRM, HCM, SRM Business Analytics and Technology.

Eb: What can we expect from SAP during the remainder of 2011, and early 2012?

HS: Have I mentioned China Sapphire Now? One of the Board's commitments and SAP China's key milestones, the company will bring its most prominent customer event "Sapphire Now" to China later this year. This will be the first time in its 22-year history that Sapphire Now will be held in a location outside the U.S. or Europe. China Sapphire Now is being tailored and specifically designed for China and will be conducted primarily in Mandarin Chinese. A total of 25,000 online and on-site participants are expected to attend the two-day event in Beijing on 15th and 16th November, 2011.

Eb: Hera, how much more challenging is it to be a woman heading a large company in China instead of a man?

HS: I'm often asked about glass ceiling for female business executives. Actually there are quite a few female business leaders in China. In my opinion and from my personal experience, the "ceiling" is not about gender, but about your choice and determination. Women in general have higher endurance and more patience and are willing to learn from others. In other words we have almost all the elements for success. It is a matter of priority.

Thus once I made the decision to focus on my career, everything else became easy. Eb

Going Mobile: Electronic Payments Move from the Desktop to the Device

Mobile payments were one of the early promises of the Internet age, one that only recently began to be fulfilled. The idea of requiring just a mobile device to complete transactions – without a wallet, credit cards or purse – appealed to most consumers, but only now is becoming a reality. EURObiz's **Steven Schwankert** looked into the increasingly portable world of electronic payments.

A mobile payment device has already been used for centuries. It's called a wallet. However, despite the durability of the idea, the ubiquitousness of mobile phone use, especially in China, has made the appeal of carrying not one but two devices less appealing, and led to a growing desire for one single device that can perform both functions.

Mobile device manufacturers have played with this concept for years, since the earliest days of the Internet, with limited success. In 2001 and 2002 in Hong Kong, Nokia rolled out a mobile phone cover for one of its models that incorporated a miniature version of the local Octopus payment card. However, the limited run gained little traction; while the idea was theoretically sound, producing only a single, robin's-egg-blue color cover for a sole phone model prevented large-scale adoption.

Since then, among other factors, devices have improved remarkably, with smartphones becoming as much the rule as the exception, and the deployment of technology such as 3G and Wi-Fi reaching near ubiquity. With Internet access now regularly available and devices adapted to take advantage of it, specialized banking and mobile payment applications can be developed, incorporating critical elements such as security to build user confidence and drive customer adoption.

The environment has finally begun to improve for mobile payments, with technology finally intersecting with consumer demand. "Technology research firm Gartner evaluated that 33.9 billion Euros had been transacted on mobile devices in 2010. As people buy more smartphones and tablets and use them increasingly even when at home, this number is expected to grow rapidly. Gartner predicted that 295 billion Euros will be transacted in 2015", said Thomas Lebecque, strategy head of Nokia in China.

"Consumers in China are already making mobile payments through their phones using technology as simple as SMS, accessing authorised bank accounts anytime, anywhere," said Dr. Roland Savoy of Giesecke & Devriant.

Like a Wallet, Without the Big Pocket

Mobile payment can complement two primary experiences: online payments made from a computer and payments made by physical credit cards, cash or prepaid cards such as transportation or canteen, carried in wallets or purses.

"Mobile payment incorporates the functions of cash and a purse into a mobile device, making people's lives easier and more independent. Mobile payment is faster and more convenient than a non-mobile device, including a wallet, which is also a mobile device, but not as easy to use", said Savoy.

The benefits from the first one are clearer: enabling online shopping and payment of bills online, sending money to friends remotely while away from a connected, fixed computer. The second complement – physical payments with a mobile device – is something for which there is not yet a lot of consumer feedback, since it is just emerging, but for which consumer benefits can be projected: interactivity (after each transaction, seeing the account balance, integration with the phonebook, automatically receiving and storing coupons and loyalty perks), permanent presence of all payment methods and finally, not having to carry a heavy physical wallet.

"Financial institutions and merchants will also see value in mobile payments. Financial institutions will benefit from consumers using electronic payments versus cash because they make a cut of every transaction. The interactivity is also welcome by both financial institutions and merchants who can keep an ongoing relationship between them and their consumers. Recommending other purchases and services, updating on what's new and coming when the user is engaged in the payment experience will lead to increased sales and more loyal consumers", said Lebecque.

The ubiquitous presence of mobile phones today also offers another avenue for payment providers to broaden their consumer reach, either through easy access (SMS, GPRS, 3G) to mobile phones, or through wide coverage of mobile phones regions otherwise difficult to reach. In China, for example, the number of mobile phone subscribers has surpassed 900 million, while electronic payment penetration is far less. Where once it was thought Chinese consumers would never adopt e-commerce because they did not use nor had no access to credit cards, as banks and telecom operators prepare to push mobile payment that concern also seems set to fall by the wayside.

"In the case where a mobile device emulates the experience of physical credit or debit cards, hardware features need to be present on the device (Near Field Communcation, NFC, and Secure Elements) in addition to the associated software which allows third-party applications and websites to integrate with them", said Lebecque. "It is important to note that none of these hardware features are specific to mobile payments. NFC is a short distance radio protocol that can be used also for pairing and sharing content. The secure element is a dedicated hardware that stores user credentials, and can be used for identification, memberships and many other use cases in addition to payments."

"NFC is an open standard to facilitate payments in a globally standardised and secure way. NFC technology relies on a so-called Secure Element (it can be a MicroSD card or a SIM card, which is a secure microcomputer which is embedded either in the mobile phone or even in a plastic card, like a credit or debit card. The technology allows the user to pay locally at a given point of sales by presenting the device, say an enabled mobile phone. The payment is quick – less than a second, effortless, multifunctional and secure – thus bringing convenience to a transaction all of us do many times every day, in shops, in the bus or subway, in restaurants or even on the Web. The phone display allows the user to immediately check the transaction balance adn even to top up the purse over the air", said Savoy.

"The core of the security concept of the NFC Mobile Payment is the secure element – it is a special microcomputer which holds the relevant information, be it monetary value, loyalty points or personal information. This information is protected by an interplay of technologies on several levels in the phone and the secure element. Based on predefined policies, information is only shared with duly authorised third parties to the extent necessary to complete the transaction," Savoy said.

For Now, Only Big Players

The readiness of infrastructure and business models to provision a device with a consumer's credentials to emulate a physical card remains a bottleneck. In the physical world, banks take a leading role in providing the card to the user and have a tight control on the information available in the card. In the mobile world, a user buys a device in one place and would need to either bring the device to a bank – which then needs to have the infrastructure to provision the device – or authorise a financial institution to top up the device over-the-air. Interestingly, in some markets, including China, we see banks considering becoming device retailers to facilitate the first use. Over-the-air use would mostly happen through the telcos' networks and banks and financial institutions must therefore make partnerships with telcos to make it fly.

In China, online payment players such as Alipay, Tenpay and 99Bill are active on mobile. Mobile payment, still at an early stage, presents a tremendous opportunity for online and traditional players to reach new consumers, retain existing ones and increase usage overall.

Device manufacturers also have a role to play. Nokia is very active in offering the technology enablers for NFC-based mobile payments and enhancing payment ease of use.

"A large number of Nokia devices will be shipped with NFC going forward, and let's not forget that Nokia was an NFC pioneer with the first NFC device in 2005", Lebecque said. "As for secure elements, an increasing number of Nokia devices with secure elements will come to the market. As for improving ease of use, Nokia's strategy is to continue to provide market leading NFC devices and experiences that allow the NFC ecosystem to evolve and develop NFC services that add value to the consumer experience, including payment experiences. Nokia is fully committed to driving the technology forward by creating an open ecosystem and fully interoperable environment between developers, software and service providers and device manufacturers."

The Weakest Link

For online payments, the biggest bottleneck to adoption is consumer ease of use and trust in security of payments and the fact that many goods need to be seen, touched and felt before being bought such as cars, clothes, electronic items.

For physical payments, there are multiple issues that need to be tackled before mass adoption.

Because payment credentials are physically stored on the phone, there are security concerns from consumers and financial institutions, especially on smartphones that are open and thus allow many applications, some of which are malicious, to be installed. There are many solutions to tackle these concerns and industry players, for example implementations isolating the software used for each transaction from the software of the phone, creating a 'trusted environment'. This is more secure than what you see on PC and Mac today", Lebecque said.

A second bottleneck is the relative lack of NFC-enabled, Point-Of-Sales terminals in shops and restaurants. While there are 3.3 million of them in China, that is still a relatively small number for such a large consumer base.

Also, a phone that stores the user payment credentials can be lost or forgotten more easily than a computer. While true, in comparison with physical wallets and plastic cards, in the case of mobile phone loss, mobile payment can actually provide higher protection. Payment applications can easily be built to require a password or other authentication credentials in addition to a pin code for each transaction.

Finally, some concerns arise if consumers use their mobile payments as frequently as with plastic cards or cash. "While security risks would be similar, the aggregate amounts would be higher. But again, when comparing with plastic cards, this should be equivalent level of risks, for which nearly all financial institutions have coverage offers today", Lebecque said. Eb www.freudenberg-it.com

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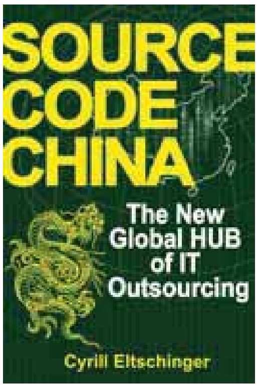

For 30 years, India was synonymous with information technology (IT) outsourcing. But China has begun to emerge as a potent rival to the world's other most populous nation. EURObiz's **Steven Schwankert** talks to author **Cyrill Eltschinger** about knocking the reigning champion off its perch.

No one will get fired this year for outsourcing IT processes to a firm in India. But what about next year?

That's the contention of Beijing-based Swiss native Cyrill Eltschinger, an entrepreneur, consultant and author of *Source Code China: The New Global Hub of IT Outsourcing*, published first in English in 2007, with the Chinese edition becoming available earlier this year.

China's prominence in global business and trade, its large base of skilled labour, particularly computer-science graduates, and cost advantages being provided by second, third and fourth-tier cities keen on attracting foreign investment all make the country a competitive choice for business process outsourcing (BPO) and information technology outsourcing (ITO).

"I agree with the [technology research firm] Gartner maxim of 'country before company'. In other words, choose the country where you are already established and doing business, rather than pick a place where you otherwise have little or no economic interest", Eltschinger said. "For many multinational corporations, China is their number one market outside their home country. The same can't be said about traditional outsourcing hubs like India or the Philippines". Outsourcing is somewhat like manufacturing overseas: lower labour and operating costs outside of Europe and North America, along with a pool of skilled engineers, project managers and computer-science graduates, can make project development away from a company's home country cost-effective.

"It's following the talent," Eltschinger said. "We're just not producing enough trained technical people [in Europe and North America] to handle the amount of work that's out there, certainly not at a price level that makes it effective for most companies to engage".

In *Source Code China*, he points to the BRIC (Brazil, Russia, India and China) countries as having the advantage in outsourcing due to a combination of factors: size and scale of population, developing economies that are creating both skilled populations and medium to long-term price advantages. While he notes the popularity and progress made by countries like Poland and Vietnam to establish outsourcing hubs, both are limited by a simple factor. "They just don't have the population. It's not about the quality of the work, or the price, but there just isn't the scale there for outsourcing to be sustainable in the long run".

Among the other BRIC countries, India is China's main rival, having established itself as the world's technology workshop since the 1980s. But rising costs and other factors have jeopardised its lock on that title.

"While India has had outsourcing growth for some time, they have neglected the infrastructure required to support it: stable power supplies; technology parks and roads to reach them; nationwide broadband Internet. Even literacy: only 61% of India is literate, compared to 92% in China. How can you support value-added technology services when almost 40% of your population is illiterate, in 2011", he said.

Eltschinger also points to other indicators, such as the size of China's trade relationship with the European Union and with the United States, China's world-leading population of Internet and mobile phone users and to its 2008 hosting of the Olympic Games as proof that China is in the driver's seat for the future when it comes to the ability to provide IT outsourcing services. Perhaps most importantly, he says the proof is in India's own pudding.

"Where are top Indian outsourcers sending their work to, when they run out of capacity and as costs become too high? China," he said. Indian outsourcing titans including Tata

Consultancy Services and Satyam Information Services have both had China-based ventures since as early as 2005, with contract relationships dating back into the 1990s.

Inland Revenue

For companies looking for opportunities in China, both for outsourcers and those potentially wanting to provide outsourcing services, Eltschinger suggests they go west – or north, or south, just a direction that doesn't point to a major city.

"Ten years ago, you would have picked a major city that had a large university population, somewhere like Beijing, Chengdu (see our Chengdu focus on pg. 26) or Dalian. Now, top-tier cities in China are too expensive, salaries cannot keep pace with the cost of living. Young people feel like they will never be able to afford a home there. But a career opportunity in a technology park near their hometown, or at least in the same province, that is starting to be more attractive and makes more sense," he said.

Local governments also have greater flexibility and are more willing to use resources at their disposal in order to attract investment.

"Although they usually cannot offer the same benefits as larger cities, such as quality of life and proximity to international airports, third and fourth-tier locations can provide significant tax breaks, years of free rent and assistance with permitting processes in order to secure long-term investment", Eltschinger said.

He sounded a word of caution about such destinations. "Choosing such a location as a first stop in China may not be for the faint of heart, or at least not for companies new to doing business here. The negotiations can be a bit long and intricate, and often, you have foreign executives not used to dealing with Chinese officials, and Chinese officials who have little experience addressing the expectations of foreigners."

However, Eltschinger believes that for those with the requisite patience, the experience, and the relationship, can bear long-term fruit.

"Chinese companies have been handling Western outsourcing projects for at least 15 years now. We have Chinese outsourcing companies that are listed on European and North American stock markets now. Outsourcing isn't new to China. What's different is that while India has had NASSCOM (National Association of Software and Service Companies) marketing for it for decades, Chinese companies are selling themselves as individuals. It makes it more difficult, but the quality, and the advantages, are beginning to show."

Source Code China's English edition is available through Amazon.com. The Chinese edition is available at local bookstores and from www.dangdang.com. Eb

Chengdu Becomes an Outsourcing Hub

When first-tier cities in China lose their cost advantages, what new footholds can the global outsourcing industry choose? Move inland, **Tammy Zhou** says. Second-tier cities can provide the talent and the right price for companies with enough courage to try them.

Located in southwest China's *Sichuan* province, Chengdu was named one of "the world's fastest growing cities in the next decade" by *Forbes Magazine* in October 2010, has gained fast development in recent years, especially after the financial crisis. Service outsourcing industry revenue in Chengdu reached 180 million Euros in 2010, an increase of 158% year-on-year. Total software and information technology services industry revenue exceeded 10.9 billion Euros, maintaining 35% annual growth for eight years, according to statistics from the Chengdu Bureau of Commerce.

"Chengdu has become one of the most important global destinations of IT outsourcing companies", Christine Du, President of Chengdu Tianfu Software Park, one of China's largest technology parks, said. "A large number of global IT and outsourcing giants have set up companies in our park, of particular note is that some centers in our park have developed into the largest IT outsourcing centers of their groups, such as Tieto, a leading IT service company headquartered in Finland providing IT and product engineering services. For the past five years, Chengdu has successfully attracted a large number of companies to setup R&D, IT and back-office operation, including Nokia-Siemens, SAP, DHL, Maersk and Ericsson. On June 20, 2011, Philips was the latest company to sign an agreement with the Chengdu Hi-tech Zone government, to establish its first R&D center in western China.

"Currently, three of top ten global service outsourcing companies, IBM, Accenture and Wipro, have opened subbranches in Chengdu, and 11 of the world's 20 largest software enterprises have settled in the city", Tang Jiqiang, the director of the development planning bureau of the Chengdu High-tech Industrial Zone said.

The Global Delivery Index (GDI) report compiled by International Data Corp. compares 35 cities in the Asia-Pacific region as potential offshore delivery centers, based on a comprehensive set of criteria such as cost of labour, cost of rent, language skills and turnover rate. In its March 2011 edition, the report highlights Chengdu's advantages in talent, cost and environment. With 51 universities and over 150 research institutions, Chengdu has a rich talent pool. In addition, there is also a relatively low rate of brain drain from Chengdu. These have laid a good foundation for the development of the service outsourcing industry. About 200,000 people are employed in the software industry, of which 80 percent hold a bachelor's degree or above. It is estimated that the software industry will provide jobs for more than 220,000 people by the end of 2011.

The GDI report specifically mentions that with their advantages in infrastructure, human resources and local government support, emerging outsourcing cities in China such as Chengdu have become powerful competitors in the global delivery market.

Aside from the aforementioned advantages, the strong outsourcing demand in Chengdu is another important reason that the service outsourcing enterprises establish themselves there. In 2010, Chengdu signed cooperation agreements with local and foreign service outsourcing companies valued at 233.7 million Euros, a 99% year-on-year increase. As one of China's sample cities for the service outsourcing industry, Chengdu topped the western China region.

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How Tech Giants Fall (and How to Avoid The Same Fate for Your Company)

In what has to be one of the best almost-postmortems of an Internet company ever read, Bloomberg BusinessWeek's Felix Gillette's June article on "The Rise and Inglorious Fall of Myspace" offers a set of insights that apply far beyond the doors of the benighted (and recently sold at a 94% write-off) social network pioneer. **David Wolf** extracts three lessons from it that are particularly germane for companies in China that are either in the Internet business, or who are relying increasingly on the Internet for their marketing and communications.

Perception is Reality

Despite the huge numbers racked up by Weibo and QQ, social networks are sufficiently new that they are still a little scary to the average consumer: less so than space tourism, perhaps, but more so than a trip to the grocery store. Fears about privacy, identity theft, stalkers, pedophiles and a host of unseen and unimagined dangers lurk in the subconscious of even the most adventurous user. As willing as they are to flock to something new, they will take flight like spooked ducks if their sense of security is credibly threatened, leaving a once-hot network floundering. As Gillette notes:

One of the reasons social networks are so combustible is that they have proven to be particularly sensitive to public perception. In February 2006, Connecticut Attorney General Richard Blumenthal announced that he was launching an investigation into minors' exposure to pornography on Myspace. The subsequent media frenzy helped establish the site's reputation as a vortex of perversion. "If you have a teenager at home, odds are they've visited the blog site myspace.com", Hannah Storm warned CBS News viewers in 2006. "And there are fears that this popular social networking website and others like it, have become places where sexual predators easily prey on children."

Researcher Danah Boyd of Microsoft believes that alarmist press ended up crippling the company. "The news coverage of teenage engagement on Myspace quickly turned to, 'Oh my gosh, there are all these bad teenagers doing bad things and this is crazy!'" said Boyd. "Quickly, it turned into a big narrative about how this was a dangerous, dangerous place."

This situation brings to mind an editorial that serial entrepreneur and Mahalo.com CEO Jason Calacanis wrote in 2008, suggesting that Internet startups didn't need PR people, and that the CEO can and should be the PR guy for a company. Calacanis pointed out that the CEO is the chief spokesman for a company with media, bloggers, analysts and the general public, presuming of course that the CEO is not a reclusive nebbish who gets flop-sweat in front of reporters, or worse, has a tendency to run off at the mouth (and there are plenty of both kinds here in China, among multinationals and state-owned enterprises alike).

What the Myspace case suggests, however, is that somebody on staff or on retainer needs to be spending his or her days anticipating and addressing potential scares and other reputation busters, because waiting for such things to happen and then responding is already too late. As quickly as Myspace reacted, reaction was not enough and in a world with five-minute news cycles, it never will be. Besides, a CEO has far more things to worry about. And how is Mahalo doing these days, Jason?

If It Does Not Look Broken, You Aren't Looking Hard Enough

The old expression that "a rising tide raises all boats" has an unwritten corollary that applies to fast-growing businesses: "a rising tide covers all rocks". High growth can mask a huge range of fundamental problems, and smart companies like Amazon.com go and dig them out even when they aren't real problems. They understand that failure to do so will only mean problems later, when the growth slows, the tide goes out and the rocks start sticking holes in the boat.

Myspace did not. As Shawn Gold, former head of the company's marketing and content efforts, told Gillette, "when you're growing at 300,000 users per day it's hard to imagine that you're doing anything wrong."

In retrospect, that sounds almost delusional, but you have to be in one of these organisations to realize how easy it is to overlook or ignore critical problems. Hubris is as easy to catch as a cold when things are really good and you are being lionised by media and users alike, and even those immune to the hauteur virus are likely to be so wrapped up in just keeping the wheels on such a fast growing organization that they set "important but nonurgent" problems aside.

The problem is even more pervasive in China because so many industries are enjoying breakneck growth. How easy is it to believe that you are doing something wrong when yours is the only geography in the company where revenues are growing this quickly…or at all?

The solution is for companies to build organisational debugging into their culture and allow time and resources to address those issues. Myspace, by the admission of both Gold and its founders, were more seat-of-the-pants and they paid for it.

Leaders Must Be Users

MySpace co-founder Chris DeWolfe made a point he felt was critical to the company's long, slow slide to the middle of the social network pack:

"After we left, the guys that took over were never Myspace users", says DeWolfe, who now runs a startup called MindJolt. "They didn't have it in their DNA." According to a source familiar with the sale, DeWolfe is also a finalist to buy the company. DeWolfe declined to comment.

This might be so much positioning, or even a bowl of sour grapes given the rough handling News Corp. dealt to the MySpace founders when they were shown the door. Let's resist the temptation to get all ad homenim for a moment and look at his point.

The owner or executive of a media company has to be in the audience, and for social media he or she has to be a participant. There is simply no other way to understand or manage the business. The idea of a newspaper executive who cannot read or a movie mogul who won't watch films is ludicrous. It is the same for online companies and especially social media.

This is particularly relevant for foreign companies setting up online businesses in China. Avoid putting someone in charge who is not a user, or, worse, who because of a language or cultural barrier is unable to be a user. The experience for these companies, not the content, is everything and if you cannot evaluate the experience you have no business being in charge.

But there is a lesson for all businesses in China: anyone charged with your marketing or communications needs to be reading, watching, or using the media that are important to the company. That includes all company executives who serve as spokespeople. It is not enough for the company to be on Weibo or Renren: you need to be as well.

Don't Go There

The history of social media and the Internet is sufficiently short that we should be squeezing as many lessons as we can out of every case. We will be analyzing the Myspace story for years, but Gillette gives us an excellent starting point. This is a superb article that should be mandatory reading for anyone putting their money into an online company, particularly in China, where we enjoy a surfeit of engineering talent and suffer from a dearth of capable managers.

David Wolf is President and CEO of Wolf Group Asia, a Beijing-based corporate strategic communications and marketing firm, where he advises Chinese, American, and European companies in the media, entertainment, internet, and telecommunications industries. www.siliconhutong.com Eb

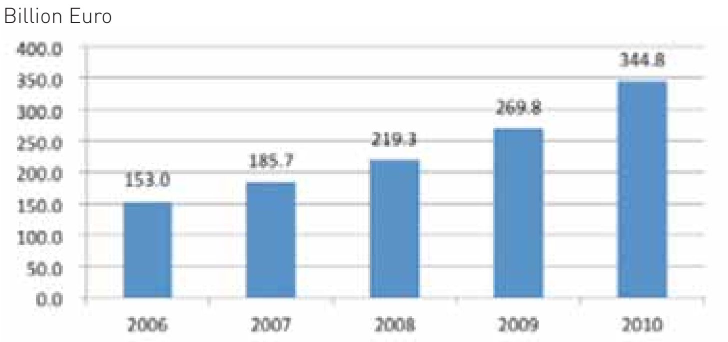
ICT in China

Merry Zhao, Industry Research Department, ACMR

China's 12th Five-Year Plan further supports the development of the country's Information and Communications Technology (ICT) Industry. For the first time in almost 20 years, China is experiencing a slowdown in growth in some technology areas, such as total number of users for Internet and mobile devices and in revenue for both fixed-line and mobile communications. Still, the numbers are superlative and China's lead as the world's largest market for many telecom services is unchallenged.

Total Business Volume of Telecommunications Industry, 2006-2010

From 2006 to 2010, the total business volume of telecommunications industry increased at an annualised growth rate of 22.5% to €344.8 billion (see right). Meanwhile, the comprehensive price level of telecommunications kept decreasing, down by 11.7% from 2009.



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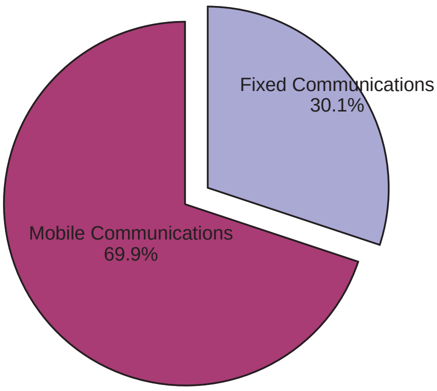


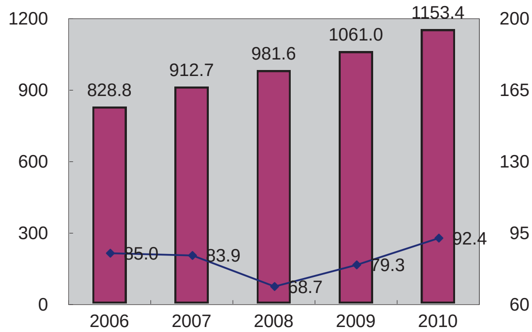
Telecommunications Market Breakdown in 2010

With services increasing and prices declining, the primary revenue of the telecommunications industry increased at a much slower rate, to €100.1 billion in 2010. Also the share of mobile communications use over fixed-line use continues to increase (see left).

Data Source: Ministry of Industry and Information Technology, ACMR

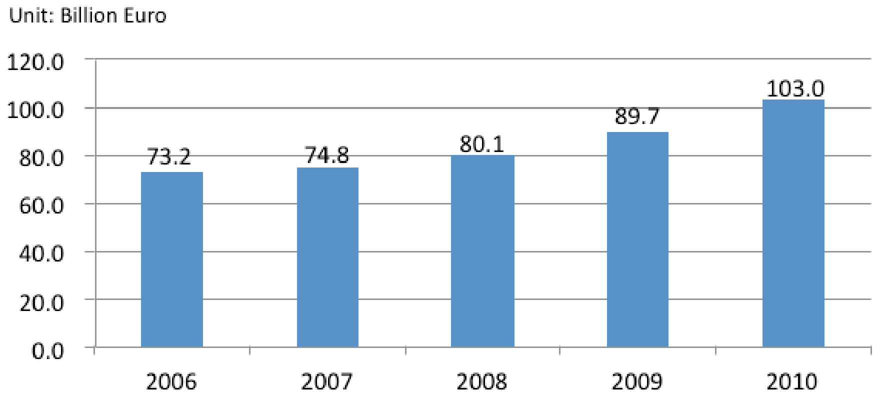
Telecommunications User Growth, 2006-2010

In 2010, the number of telecommunications users increased to 1.153 billion (see right). Compared with fixed-line growth, the share of mobile phone users remained on the rise, up from 55.6% in 2006 to 74.5% in 2010, which is expected to increase further in the future.



Data Source: Ministry of Industry and Information Technology, ACMR

Revenue of Communications Equipment manufacturing in China, 2006-2010

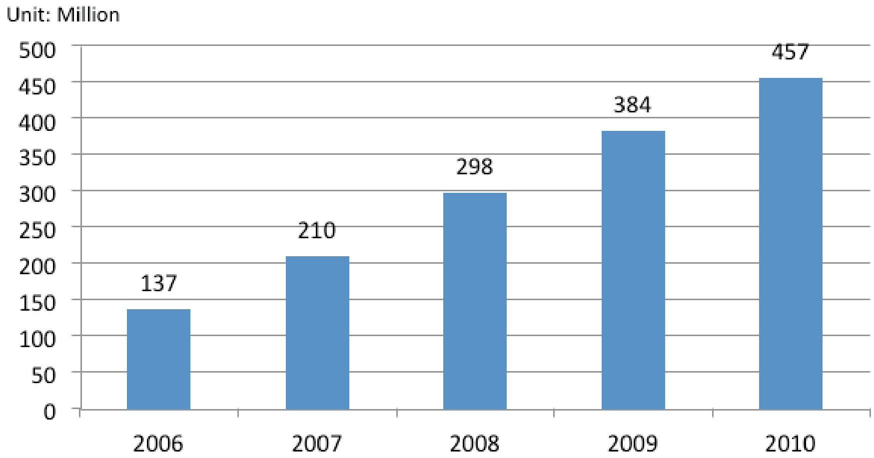


Data Source: National Bureau of Statistics, ACMR

In 2010, the communications equipment manufacturing in China achieved revenue of €103.0 billion (see left), accounting for 14.9% of the total electronic information industry. Output of China's mobile phone surpassed 1 billion units, accounting for almost 60% of global output. China has become the main production power of mobile communication terminal in the world.

Number of Chinese Netizens, 2006-2010

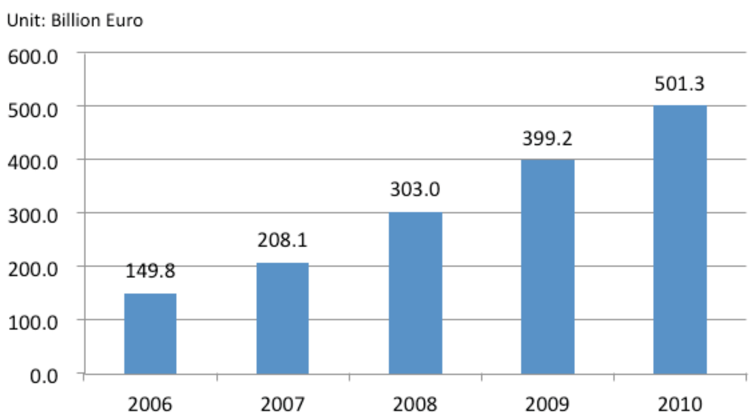
In 2010, the number of Chinese Internet users increased by 19% to 457 million (see right), with broadband Internet users accounting for 98.3% of total users, despite a different defintion for broadband speed. 66.2% of Internet users accessed services using a mobile device, with 27.3% of total Internet users hailing from rural regions.



Data Source: Ministry of Industry and Information Technology, ACMR

E-commerce Turnover, 2006-2010

E-commerce turnover has experienced dynamic expansion in China (see below). In 2010, online shopping turnover reached €55.7 billion, up 105% from 2009. Online shoppers totaled 161 million, with a utilisation ratio of 35.1% in 2010. As another significant contributor, the market size of mobile payment is also expected to increase substantially to €316.9 million in 2010, with over 150 million users.



Data Source: Ministry of Commerce, ACMR

All China Marketing Research Co. Ltd. (ACMR) is a leading provider of business information and market research, focusing on collecting, studying and analyzing data and information on the macro economy, industrial sectors, enterprises and business markets in China. www.acmr.com.cn

Opportunities in China's ICT sector for European SMEs

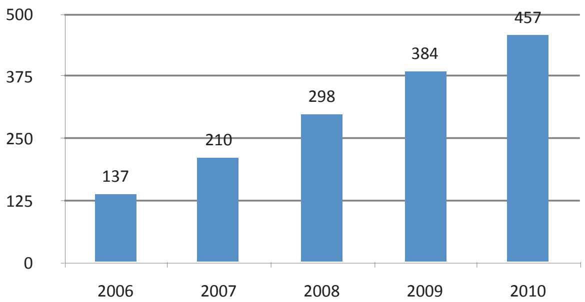
By Chris Cheung, Market Access Advisor – Business Development, EU SME Centre

A strong base for opportunity

The growth and progress that China's ICT infrastructure has experienced in recent years is evident from the great number of internet and mobile phone users. Nowhere on the planet are there more internet (457 million) or mobile phone (859 million) users. More impressive though is that by all accounts there is room for much more growth. Internet and mobile phone usage penetration rates are at about 30% which is much lower than in Europe where mobile phone penetration is now over 100%.

With such a large and growing base of users, the Chinese ICT market presents a promising prospect for any business. According to recent statistics (2010) from the Ministry of Industry and Information Technology (MIIT) the Chinese ICT market was valued at CNY 10.7 trillion (EUR 1.17 trillion) while the European Information Technology Observatory (EITO) reported the comparative European market as being valued at EUR 704 billion.

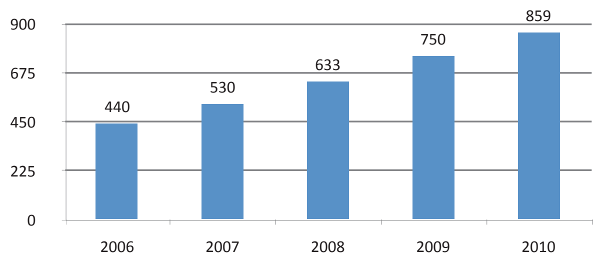
Internet Users



Millions of users

Source: MIIT, EU SME Centre

Mobile Phone Users



Millions of users

Source: MIIT, EU SME Centre

Growth drivers

The ICT sector is a focus area for the Chinese government and has been highlighted in the 10th, 11th and 12th Five-Year Plans as being a key enabler to China's ongoing economic progress.

The 12th Five-Year Plan highlights new-generation information technology as the next stage in the evolutionary process and includes under its wide umbrella next generation telecommunication networks, next generation internet technologies, Internet of Things, triple network convergence (telecom, computer and cable TV networks), cloud computing, integrated circuits, new generation displays, high-end software, high end servers and information services.

At the same time other socio-economic factors will combine with the government's zest for this industry ensuring the growth in this sector; these factors include a largely untapped rural market, government spending, increased adoption of e-commerce and continuing modernisation in sectors such as education, healthcare and manufacturing.

Highlighted opportunities: software and IT services

Although, telecoms and hardware take up the lion's share of the ICT market, software and IT services are showing the greatest growth and show particular promise for European SMEs. According to the Chinese research organisation ACMR, IT training services, support and maintenance services, and system integration services are already relatively mature. In contrast, IT consulting services and IT outsourcing services are still in their growth stages.

"IT and software services should be a key target area for European SMEs in China. Manufacturers have to be realistic about their chances to compete here. The tech and software service areas are generally open but there are challenges that need to be overcome including language, culture, IPR protection and the hiring and retaining of qualified staff." Duncan Clark, Vice Chair of the ICT Working Group of the European Chamber of Commerce in China.

IT consultancy and outsourcing sector

Foreign companies are bringing with them more efficient business practices driven by IT systems that are integrated with their operational processes. These processes are also being implemented in China and this has brought about the need for service providers that can develop and integrate databases and IT systems (e.g. ERP and CRM systems).

The banking and health sectors are seeing particular drives to upgrade their systems and are therefore a good potential source of opportunity. Opportunities may also be more easily accessible in China's second and third tier cities where quality service providers are hard to find.

Web development

Although there are about 1.9 million websites in China, the most accessible web development opportunities for European SMEs at first will be with the growing number of foreign companies and organisations who have recently entered the Chinese market. Competition in the web development and design market is getting tougher though and service providers increasingly have to show strong capabilities in terms of systems integration, database development and design. Chinese websites are, in the main, underdeveloped and it will take time for European SMEs to secure them as regular clients.

Applications development

Mobile internet users in China now exceed 250 million. iPhones and Android phones are flying off the shelves in China's major cities like the proverbial hot cakes and hardware manufacturers such as Toshiba, Samsung and Great Wall Computer are pushing tablet PCs after Apple's iPad. This has led to great potential in the market for applications. Although the current market for applications is small, Chinese consumers who are already used to paying for ringtones and for online gaming are likely to be a good target market.

Enterprise software

Between 2009 and 2013, the fastest-growing segment will be data integration and data quality tools, with a CAGR of 32%, although it is growing from a small base. According to the IT research and advisory company Gartner, Chinese enterprises are catching up in terms of adoption of these tools, resulting in the fast growth of this market.

The market access challenge

Of course, there will be a number of challenges that European SMEs will need to consider when approaching the market. On top of the language and cultural issues that will have to be overcome, SMEs should take into account the following:

The labour crunch

IT staff (e.g. IT engineers and web developers) are becoming increasingly expensive to hire and difficult to retain. Job hopping is currently a fact of life in the ICT industry, with some industry insiders reporting turnovers of 50% of staff per annum.

Many IT staff will also have a preference for working with large multinational corporations, so SMEs will have to underline growth opportunities and corporate values to staff, in order to increase their chance of retaining them.

"Hiring staff in China should not be seen as being 'cheap'. Especially after you have factored in the time it takes to recruit and retain." Stefano Roncari, Managing Director, Eggsist (IT Consulting, Web and Mobile software engineering).

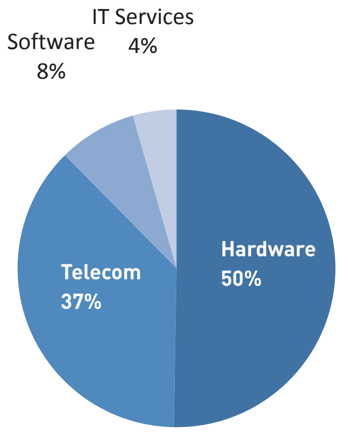
Developing market

Although growing quickly, the ICT market is still in the process of developing. On the one hand many Chinese organisations (public and private) are not yet developed enough to take on the latest ICT solutions and on the other hand intangible products such as IT consultancy and software are not viewed as being as value adding as in the West. Time is therefore needed to convince Chinese buyers of the benefits of many ICT services and software products and to overcome price sensitivity in the market.

IPR

China's IPR environment is still a challenge for any business operating in the market. EU SMEs in the ICT industry looking to sell or export ICT products to China should be wary of the high risk of IPR infringement in China and the difficulty in enforcing these rights.

China ICT Market 2010



Total Revenue in USD: 1.6 trillion
Exchange rate used: USD 1 : RMB 6.6

Source: MIIT, EU SME Centre

The best plan of attack - be specific, go local

The Chinese market should be on the radar of any European ICT SME looking to internationalise. To increase chances of success, products should be developed to fulfil a very specific market need; for example, accounting software for the finance industry, patient records systems for hospitals or specialised software for data entry. European SMEs should also gauge the potential in regional cities, where larger players have yet to engage, and which also offer significant markets by any standards.

It goes without saying that you have to be here to provide these services and, apart from the rare case where an off-the-shelf solution will apply straight away, localisation and tailoring of the product should also be factored in. Selling to foreign clients at the beginning is the path of least resistance but the greater prospects for long term growth are with the developing Chinese firms and organisations.

"Clearly it's dangerous to assume that Chinese clients would want to use our software in exactly the same way as European customers. Consequently, we work closely with each customer to fully understand their individual needs. Where appropriate, we can then tailor systems specifically for the Chinese market – rather than relying on a generic solution." John Davies, Managing Director – TDSI (Access control specialists), in the UKTI report - Software Industries in China.

The EU SME Centre

The newly established EU SME Centre in Beijing provides a comprehensive range of free-of-charge hands-on support services to European Small and Medium-sized Enterprises (SMEs), assisting them to establish, develop and maintain commercial activities in the Chinese market.

The EU SME Centre has recently published an ICT sector report which includes information on market size, key growth drivers, market structure, distribution channels, opportunities and challenges. The report and accompanying case studies are freely downloadable from the Centre's website following registration: www.eusmecentre.org.cn. Eb

Protecting Online IPR in China – Part I

Internet usage is booming in China. With more than 420 million netizens, China connects more people to the Internet than any other country. Although the Internet acts as a gateway for European SMEs, it is also an ideal platform for copyright infringers to sell counterfeit products and commit fraud. The Internet provides a low-cost method of reaching consumers around the world without revealing identity or origin of operation, meaning that infringers can operate anonymously.

Why is domain name protection so important?

Companies operating in China face an increasing number of online threats such as fraud, counterfeit sales, false affiliation, phishing, slamming and traffic diversion.

These threats may at best lead to consumer confusion or lost web traffic, but could also result in lost E-mails, lost business, and in some cases, lawsuits from consumers against (genuine) IPR holders. In general, various online criminal activities may lead to brand dilution, increased risks, loss of business and an eventual loss of reputation (and ultimately profit). The omnipresent nature of the Internet means that even European Union (EU) SMEs operating exclusively in their home markets cannot ignore the risks these activities may pose to their business, even if these activities originate in China.

Risks of domain name infringement

The classic form of domain name infringement is known as "cybersquatting", which is when a person or entity with no legal rights to a particular domain name consciously (in bad faith) registers a domain name identical or similar to a third-party company name, product name or trademark. The cybersquatter is taking advantage of the first-to-file principle that applies to domain name registrations, and is seeking to sell the domain name to its rightful owner at a high price. While cybersquatting continues to be a frequent occurrence, this is no longer the main motivation for infringers who register domain names infringing on third parties.

In recent years, monetisation of domain names has become more common. Typically, this is registering domain names with misspellings, or typographical errors of famous brands or company names. The registrant or the domainer benefits from the traffic generated when people mistype a Uniform Resource Locator (URL, or web address) into a browser. If an Internet user mistypes the URL, e.g., www.euroap.eu instead of www.europa.eu, the user reaches a website where the domainer can place a number of sponsored links. If the Internet user then clicks on one of those exposed links, the registrant of the domain name receives a portion of the advertising revenue paid by the advertiser. This practice of registering domain names with either legitimate attractive generic domains or infringing misspellings of brand names has increased to enormous proportions, and is a key factor in the massive growth of domain name registrations globally and in China.

Several factors used to make it easy and attractive for domainers to register domain names, both legitimate and illegal, in China:

- .cn domain names are very cheap compared to other top-level domain (TLD) names. Prior to December 2009, .cn domain names were also relatively easy to register.

- .cn is divided into 34 regional TLDs such as bj.cn for Beijing and sh.cn for Shanghai and uses both Latin and Chinese Characters.

- The Internet is booming in China – spending on online advertising is increasing annually.

In addition to the threat of "typosquatting", domainers also use fraudulent, counterfeit websites that may be using .cn domain names, as well as websites and E-mail addresses containing someone else's brand name or variations of it. These registrations of infringing domain names occur in many forms: they may be correctly spelled under a regional suffix, misspelled, and/or registered in Chinese characters. These factors also make it somewhat more complicated for IPR owners to protect themselves online in China, compared to other countries and other top level domain names.

Protecting IP assets online to mitigate the risks

Domain name disputes and other IPR lawsuits in China can be a costly, time-consuming and complicated process. Therefore, it is strongly recommended that companies proactively formulate a defensive domain name strategy to prevent problems from arising in the first place.

When creating and implementing an IPR protection strategy in China, online brand protection is just as important as protecting trademarks, patents and copyrights. It is essential to protect company names, product names, services and trademarks through domain name registrations under the Chinese top-level domain .cn. In addition, from the summer of 2010, China began to offer a new Chinese top level domain name “.中国”, which means “.china”.

Prior to December 2009, the .cn domain name had a fully automated registration process that barely required any validation of registration data. The Chinese domain name registry, China Internet Network Information Centre (CNNIC) recognised the resulting issues and in an effort to curb the number of bad faith registrations, set stricter requirements for registering .cn domain names in order to ensure the authenticity, accuracy and integrity of the domain name registration information. It also introduced a number of control mechanisms for the .cn domain name space. It is now possible to file a complaint against an infringing domain name registrant by contacting CNNIC via online form (or by fax or a 24-hour hotline). These complaints can be against domain names that are older than two years, which is the time limit for filing a domain name dispute at one of the two appointed domain name arbitration centres (Beijing and Hong Kong).

Restricted Domain Name Requirements

As of 14 December 2009, domain name registrations require the following:

• Only Chinese companies may register .cn domain names. Foreign companies may register for a .cn domain name only if they have majority ownership of a Chinese subsidiary. However, the Chinese subsidiary must be the registrant and the contact person must be a Chinese national.

• The following documents are now required:

• Application form with business seal of applicant company

• Copy of business certificate in China (plus a ‘Certificate of Organisation Code’)

• Copy of identification of registrant contact person in China (must be PRC national)

All the documents must be submitted within five days of the electronic application; otherwise the application will automatically be void and the entire process must be restarted. Submitting originals is not required, nor are copies of trademark certificates to prove a prior right to the requested domain name.

Unlike trademark registrations where there is a period of three months when third parties may object to the application of a certain trademark, .cn domain names are registered within a few weeks without any opposition period.

It is currently uncertain if and when CNNIC will allow foreign-owned enterprises without a Chinese subsidiary to register .cn domain names again. It has stopped accepting domain name applications from foreign companies since mid-January 2010 and has explained it is looking for a way to validate foreign company certificates and the identity of a foreign contact person.

These new restrictions are both good news and bad news for European SMEs. On one hand, the new requirements now make cybersquatting more difficult. Unfortunately, the registration and operation of a .cn domain name is now a much more troublesome and expensive process for European SMEs. However, it is still possible to register .cn domain name using a European registrar, as long as the Chinese subsidiary is the registrant. Where there is no Chinese subsidiary, foreign companies may want to consider using a trustee or “local presence” service such as a Chinese law firm to register Chinese domain names on their behalf. You may contact IPR Helpdesk, if interested in exploring this possibility.

As of now, CNNIC has not given any indication that it will require existing .cn domain name registrants from Europe or other foreign countries to retroactively submit required validation documents. However, foreign companies are strongly recommended to ask their current registrar to monitor any .cn regulation developments as CNNIC may require a transfer of domain name ownership from a foreign company to a Chinese company in the future. During 2010 CNNIC has requested all registrants, via email, to confirm that their registrant (WHOIS) data are correct.

Despite the fact that CNNIC now only allows Chinese entities to register .cn domain names, domain names registered to foreign entities prior to December 2009 have not yet been deleted. It is important that the registrar closely monitors for any policy updates from CNNIC in this regard. To be certain not to lose a .cn domain, it can be recommended to transfer the ownership of.cn domain names to daughter companies in China.

Thus in an attempt to make the .cn name space clean from fake registrants, and websites containing illegitimate content, specifically pornographic content, CNNIC´s increased controls and stricter requirements have resulted in the deletion and non-renewal of as many as 9 million .cn domain names. Whereas CNNIC reported 14 million active .cn domain names in the autumn of 2009, in January 2011 this number has decreased to 4.6 million active domain names.

Part two of this article will appear in the November issue of EURObiz.

If you have further questions about formulating a tailored IP protection strategy for your business or creative work, please direct to enquiries@china-iprhelpdesk.eu. Your enquiry will be treated with the strictest confidence and will be answered within seven working days by one of our China IP experts.

The European Business in China Position Paper 2011/2012

On 8th September, the European Chamber launched the 12th edition of the **European Business in China Position Paper 2011/2012**. This annual publication has grown in importance and stature to become a vital contribution from private business to the development of China and EU-China relations. **Tony Robinson and Alexandra Quie** explain its significance.

The *Position Paper* is the product of six months' consultation through the European Chamber's Working Group network. This involves hundreds of companies and individuals from European businesses operating all over China, with the result being over 600 recommendations to various levels of the Chinese Government that are intended to serve as a source of constructive and valuable input for China's future development.

European Business Can Contribute Towards the Goals of the 12th Five-Year Plan

As China looks to rebalance its economy, new drivers of growth are needed to replace older ones, and in this regard further market opening and the development of the private sector present a formidable opportunity. The stated goals of the 12th Five-Year Plan include industrial upgrades, developing services, encouraging innovation and green development. These targets match the strengths and practical experience of European companies in management know-how, service provision and green and advanced technology. As long as there is a level playing field for enterprises both domestic and foreign, state-owned and private alike, European companies can and would want to continue to play an important role in China's development plans.

However, despite some encouraging statements and developments, European companies continue to face challenges to both enter and operate in China's market due to unequal implementation of the law, and the laws themselves. As China becomes increasingly globally integrated, the European Chamber strongly encourages both Europe and China to resist any forms of race-to-the-bottom protectionism and to contribute to open markets in the spirit of mutual benefit.

Progress Made, Barriers Remain

Included in the Executive Summary of the *Position Paper* is a table of 10 examples of positive developments that occurred in areas such as transparency, IPR, tax, environment, legislation, standards and industry specific market access. All of these examples came about in the past 12 months and correspond to recommendations made in previous editions of the Position Paper, for example:

It was announced as part of the 12th Five-Year Plan that Business Tax would be replaced with a Service Value Added Tax by 2013. This had been recommended by the Finance & Taxation Working Group of the European Chamber in the previous two years and is a welcome development.

The Travel Working Group has recommended for eight years that foreign tour operators should be allowed to operate outbound travel services from within China and in 2011 the China National Tourism Administration issued licences to three foreign joint venture (JV) tour operators to do this under a pilot scheme.

However, despite progress, it is clear that numerous barriers remain. In early 2011 the European Chamber's members gave their opinions on the current business environment for foreign enterprises in China in the *Business Confidence Survey*. The results showed that 43% of members felt that over the past two years government policies have become more discriminatory, and 46% feel that this trend will continue over the next two years. These figures are actually an increase from 2010.

Recommendations to Chinese Policy Makers

The *Position Paper* includes 33 Working Group papers that are industry or issue-specific and seven city papers for areas where the European Chamber has established chapters. Many of the recommendations in these papers can be grouped into the several main categories below:

- **Increase Market Access**

Long-standing market access barriers persist for foreign companies wishing to operate in China. Such barriers can come in many forms, such as licensing, standardisation, claims of national security, unequal access to subsidies, straightforward ownership restrictions and wholly protected sectors.

Given that Chinese companies are increasingly acquiring foreign companies abroad, it seems anachronistic that foreign companies can still not even operate in some sectors in China let alone acquire another company. For example, foreign firms are de facto obstructed from operating in the basic telecoms service sector; and in many financial services sectors foreign companies can only enter the Chinese market by being part of a JV with a domestic partner.

More worryingly, additional barriers have been included in the recently released revised draft Catalogue of Industries for Guiding Foreign Investment. For example, it indicates that foreign investors will now be limited to a maximum 50% stake in JVs producing components for new-energy vehicles.

Market access is also limited in terms of foreign companies being able to obtain licences. For example, in order to obtain a licence to carry out design services in the construction sector, it is necessary to provide a portfolio of projects undertaken in China, but it is impossible to develop a portfolio without a licence. To obtain a licence for construction services, contractors are subject to high capital requirements and foreign-invested construction companies are restricted to foreign-invested projects or special projects.

In April 2011, the European Chamber released its *Public Procurement in China Study*, which examined how a market that can be estimated to represent as much as 20% of China's economy is de facto out of bounds for foreign companies. In contrast, Chinese companies are generally free to bid in EU procurement markets -- which are globally the most open -- and are increasingly doing so.

• Enhance Transparency & Predictability in Legislation

Transparency and predictability in rule-making is essential for a stable business environment in a modern economy. Consultations with affected players and reasonable grace periods to adjust ahead of significant changes enable companies to plan their business development.

Of the 67 Chinese government calls for comment on draft legislation that the European Chamber responded to in 2010 and the first half of 2011, the average length of time given for comment was just 21 days, with the longest being 91 days and the shortest just eight days. In contrast, within the European Commission the best practice is to allow eight weeks for the collection of responses to written public consultations. While the number of consultations in China has improved in the past five years the length of time allowed seemingly has not.

An example raised in the *Position Paper* that illustrates this is the new Social Insurance Law. This came into effect on 1st July 2011 with significant confusion about the inclusion of foreign individuals working in China in the scheme. The Ministry of Human Resources and Social Security initiated a consultation on the relevant guidelines but began this only two weeks before the start date of the law with only eight days allowed for comments. Even in the months after the 1st July start date, no clarification had been forthcoming from the relevant authorities.

• Improve Regulatory Efficiency

European Chamber members report that the lack of coordination between different regulators is a significant obstacle to doing business in China. This is an issue that impacts the operations of both foreign and domestic enterprises in China alike.

For example, in the first half of 2010, European banks reported substantial operational problems due to two regulatory instructions from different authorities: the People's Bank of China relating to loan-growth quotas; and the China Banking Regulatory Commission on Entrustment Payments requirements. Both bodies were operating with the same goal (curbing inflation) but problems arose merely because of a lack of coordination on the timing of the releases.

• Encourage Innovation through IPR Protection

A defined target of the 12th Five-Year Plan is to reach 3.3 patents for every 10,000 people and it is predicted that the annual number of patent registrations in China should reach two million by 2015. This would make China, on paper, the most innovative country in the world.

In order to support this goal, the government has taken a number of measures including subsidies and tax breaks for companies, and benefits for individuals, for the filing of patents. However, this innovation-by-numbers approach has led to a race for quantity of registered rights rather than an improvement of the quality of inventions.

IPR protection in China remains an ongoing concern of European Chamber member companies. Innovation cannot thrive without the protection of the IP created in the process.

The Presentation of the Position Paper

Once the *Position Paper* has been published it needs to be read and utilised by the right people in the right places. Last year the *Position Paper* was presented hundreds of times to Chinese and European officials. At the highest level, this includes the most senior figures in bodies such as the China Banking Regulatory Commission and the State Intellectual Property Office, as well as the President of the European Council and the majority of EU Commissioners.

All members of the European Chamber will receive a hard copy of the *Position Paper* by post, and it will be available to download for free by all from our website (www.europeanchamber.com.cn) as of 8th September.

For additional copies in English or Chinese, please contact Vicky Dong, vdong@europeanchamber.com.cn, or (010) 6462 2066 ext. 37. Eb

Serving China's Greying Population

China's senior population will reach 248 million by 2020, with more than 30 million above the age of 80. In China, elderly care services are supplied by both public and private/NGO nursing homes, community elderly services and general household vendors, with premium elderly homes emerging as a new service segment. Serving China's growth in elderly population promises to be a very attractive proposition in the coming years, write **Michel Brekelmans** and **Helen Chen.**

China's rapidly growing elderly population, increasing healthcare standards and increasing wealth of its households provide business opportunities for elderly services from the private sector. In this article we explore the commercial opportunities emanating from these trends. Is China ready to adopt Western-style elderly care services? What are the business models that will be successful?

Socioeconomics Drive the Greying of the Population

Chinese society has been aging swiftly since 1999 and is one of the earliest nations among developing countries to face such a social challenge. By the end of 2009, the number of seniors over age 60 reached 167 million, representing one-fifth of the total senior population in the world. In some urban areas of medium to large Chinese cities, the percentage of senior citizens among the total population has already exceeded 20%. The main drivers of the greying population are the longevity of Chinese people (with average life expectancies of well over 70 years) and the continued improvement of the healthcare system, coupled with decreasing birth rates as a result of the one-child policy and changing lifestyles of the younger generations who marry later.

During the coming decade, this speed of population aging will accelerate, adding 8 million seniors each year on average, which means the senior population will reach 248 million by 2020. This number is equivalent to the current total population of Germany, France and the United Kingdom combined. Moreover, the population of senior people above age 80 will reach 30 million, representing around 12% of the total senior population.

Meanwhile, urbanisation continues to be a key focus of the government's 12th Five-Year Plan, recently ratified in March 2011 and the urban population is expected to surpass the rural population for the first time in 2013. In addition, we are seeing a steady growth of household income in China. In 2005, only 10% of all




A EURObiz Special Issue:

The EU-China Business Summit 2011

"Cooperation on a New Level: Innovation, Industry and Investment"

25th October, 2011 Tianjin

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households had an annual income of above 10,000 Euros, while in 2009 the percentage has reached 18% and is expected to reach 50% by 2020. Furthermore, older people are typically more responsible financially and many are without debt. It is not uncommon for them to own residences in downtown urban areas, which have enjoyed significant appreciation in value, particularly for those in first- and second-tier cities.

This aging of the population is placing enormous pressure on the government in terms of enhancing the social security system and adjusting the industry structure and consumption structure to be more focused on providing care for elderly people. In the 12th five-year plan, the government makes an explicit point to respond to the aging population by encouraging the development of an elderly care industry around nursing homes and other elderly-focused service providers. Furthermore, the plan also urges for the expansion of basic pension coverage by 100 million people by 2015.

Existing and Emerging Service Models

In Western markets, various business models exist to serve the needs of elderly citizens. The spectrum of accommodation for care models for older people is wide and driven by their health, lifestyle and economic status.

In China, elderly care services are supplied by both public and private/ non-governmental organisation nursing homes, community elderly services and general household vendors, with premium elderly homes emerging as a new service segment.

- **Community elderly service** includes services for seniors living in their own homes, but using community resources, such as dining rooms, and who are partly taken care of by their communities. An example is Haishu community in Ningbo, Zhejiang province. There are around 8,000 community service centers of this type in China.

- **Nursing homes** include those for seniors living in external elderly nursing homes operated by government or private companies. China Welfare Institute Rest Home in Shanghai is an example. They usually only provide basic nursing services, and the price is not high (approximately 1,000 yuan or per month) even by Chinese income standards. There were around 40,000 nursing homes in 2007. Nursing homes operated by the government have a significant advantage because land, the largest cost item in this low- to mid-end segment, is not an issue. The market for nursing homes operated by private companies is fragmented and most of them are currently believed not to profitable.

- **Premium elderly homes** include for the homes of seniors who purchased or rent elderly apartments, living in communities and being taken care by service vendors. An example is Sun City in Beijing. Most of the premium elderly homes provide high-standard-of-living facilities with high-quality medical and nursing services, entertainment and sport facilities, and tourism plans. Some even offer residence swap programs between cities.

BEYOND THE NURSING HOME

Besides elderly care services, there are several other products and services that are geared towards the seniors and that could be attractive business opportunities. These opportunities are wide and varied as the examples below show:

- **Elderly tourism service:** According to research conducted by the China Elderly Committee, the percentage of elderly tourists among all tourists in China exceeded 20% in 2009. By contrast, in developed countries, more than 60% of all tourists are elderly tourists. Statistics also showed that 70% of the elderly people wish to travel and 17% of them are wealthy people. Demand for elderly tourism is typically counter-seasonal because elderly people's time is more flexible this makes them an attractive proposition to the tourism industry that often faces a severe utilisation trough outside the holiday periods.

Elderly educational service: Another example is in the area of training and education. As people entering the senior ranks with increasing levels of education and wealth, they want to remain connected and active by learning new skills and getting to know other people with similar interests. The demand for elderly training services is potentially huge although there are very few dedicated elderly training courses at present in a way that we see in Western countries and other Asian markets. For example, there are elderly training gardens in Japan that are used to teach elderly people how to cultivate plants while they relax in the gardens.

- **Wheelchairs:** Taking a very different angle, in addition to providing services there are also new markets opening up for companies providing specialist products targeted at the elderly population. There are an estimated 60 million disabled people in China, most of whom are seniors. As they realize the convenience of high-end electric wheelchairs, the demand is increasing rapidly.

- **Elderly apparel:** Research has shown that the total demand of elderly apparel will exceed 1 billion suits per year in the coming years. However, less than 10% of retail shelf space in department stores is dedicated for elderly people while more than 70% is for young people.

Serving China's growth in elderly population promises to be a very attractive proposition in the coming years. Many products and services are still in the early stages of adoption, and now is the time for companies with a long-term vision to establish their brands and build their foothold.

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Shenyang: Gateway to China's Northeast

In the second of our series on cities and regions where the European Chamber serves its members, we look at business opportunities in Shenyang. EURObiz's **Tony Brooks** reports on a manufacturing base that has traditionally seen itself as the gateway to northeast China.

During the Maoist era, Shenyang was one of the most developed cities in the People's Republic of China, thanks to assistance from the Soviet Union in the form of engineers, advisors and factory blueprints. Unfortunately, after the Sino-Soviet split in 1960, the Russians withdrew en masse, taking their plans with them. As a result, Shenyang became something of an industrial backwater, such that after 1978 (the start of the reform era) foreign investment generally headed for China's coastal regions instead.

Plans to Rejuvenate Shenyang

In October 2003 the Chinese Communist Party (CCP) Central Committee issued a planning document entitled "Some suggestions concerning the implementation of strategic measures to rejuvenate northeast China and other old heavy industrial areas." The initiative was needed because of the frank admission that "northeast China was falling behind coastal and western areas in its pursuit of a moderately well-off society (*xiaokang shehui*)". The crux of the plan was to breathe new life into Shenyang and other northeast cities through reform of the state sector, which as late as 2003 accounted for over half of Shenyang's GDP.

This project to reinvigorate the northeast was highly ambitious, funding over 320 projects between 2003 and 2007 across a wide range of industries, ranging from petrochemicals and shipping, to agricultural products and mining. In 2008 the National Development and Reform Commission (NDRC) took over responsibility for developing the "greater northeast" (now to include Inner Mongolia), with funding last year of 36 billion yuan on 343 projects. It is precisely because of these central government initiatives that over the past decade Shenyang has increasingly focused on its core strength: heavy manufacturing.

Heavy Industry Rules

According to the 2010 Shenyang Yearbook, over the past decade the size of the service sector (as a proportion of the city's economy) dropped from 54% to 45%. This decline was offset by an almost equal rise in the size of the manufacturing sector, a whopping 73% of which was classed as "heavy industrial." In other words, despite the best efforts of the local government, tertiary industry has been eclipsed by State-Owned Enterprises (SOEs) and private companies focusing on heavy manufacturing.

Some of the biggest SOEs in the country are now found in Shenyang, covering industries ranging from machinery (tools), transport (airplanes, automobiles) and electrical equipment (power grids), to smelting/pressing (steel) and agricultural food processing. Cash injections from central government have ensured that currently only around 10% of these heavy manufacturing SOEs lose money. Put differently, while Shenyang may not be attracting large numbers of knowledge economy start-ups, it is now an industrial powerhouse producing 20 times the amount of Shenyang beer, 18 times the number of tyres and 600 times the number of cars that it did in 1978.

Foreign Enterprises

As a city which styles itself as the "homeland of machinery," it is not surprising that many of the Foreign-Invested Enterprises (FIEs) in Shenyang are manufacturers, including Michelin, BASF, Leitz, Braun and Bayerische Motoren Werke AG. Despite the growing number of FIEs in the city, utilised foreign investment has fluctuated wildly over the past 15 years, perhaps because small numbers of very large projects have tended to distort the overall upward trend in investment. In recent years, foreign companies established in Shenyang have been broadly satisfied with the way they are treated by local officials, although some have found that promised benefits fail to materialise, or that dealing with the municipal government is overly bureaucratic.

Shenyang's Place in the Region

In terms of commerce and trade, it makes sense to think of Shenyang as a "gateway" to northeast China, a largely untapped region with great business potential. However, both domestic giants and Multi-National Corporations (MNCs) have found it difficult to break into this market, not only because of local protectionism, but also because they have continually overestimated demand and underestimated competition. Shenyang, like other big northeast cities, is still dominated by heavy industry and has been slow to reform both the economy and SOEs. As a result, the people there are still struggling with remnants of the command economy and have been slow to reap the benefits of reform.

Many economists think of northeast China as a natural, self-contained market. The Han majority across the region have their own distinctive cuisine, customs, accent and character. The area's homogeneity has meant that local companies who best understand northeast culture (and the demands of the consumers there) have thrived in its three provinces of Liaoning, Jilin and Heilongjiang, whereas those that don't have struggled to gain a foothold at all.

Infrastructure

As befits a regional gateway, Shenyang is well-connected to the rest of the country. The city has northeast China's largest airport, and there are currently 36 trains per day to Beijing and 45 per day to Harbin. As part of central government plans to turn Shenyang into a logistics hub, a new rail link to Beijing via Inner Mongolia is under construction, and the Harbin to Dalian (via Shenyang) bullet train line will be virtually complete, cutting journey times by two-thirds. Less reported but just as important is the port of Yingkou to the south of Shenyang, which is being rapidly expanded to cope with an anticipated growth in trade. One of Yingkou's main attractions is that it is an ice-free port, situated just far enough south to be kept operational throughout the winter without the use of icebreakers.

Putting a Face to the Statistics

Many Chinese cities look very similar to one another, which makes it hard to get a sense of what a place is like just from visiting a few gleaming new industrial parks. In terms of raw statistics Shenyang has a large but slightly shrinking population of 7.1m, with (in 2009) a net outflow of about 100 people per day. A decade ago Shenyang ranked as China's sixth largest urban area, but according to the 2010 census the city has now slipped to 12th place, behind rapidly growing coastal cities such as Dongguan and Tianjin. Shenyang has the nation's 17th largest economy, placing it ahead of over 500 other Chinese cities. Wages are extremely competitive, with the average worker taking home around 1,500 RMB per month. The winters in Shenyang are long and cold with temperatures dropping as low as -30C, which drives up the cost of doing business because of the need to heat factories and workshops. However, many local residents (and northern Europeans) think that Shenyang's climate is much more bearable than the tropical south, because of its four distinct seasons.

The city is becoming an increasingly attractive place to live, not just because of the outstanding restaurants and quality international schools, but also because municipal officials are making concerted efforts to clean up the environment. For example, in 2009 over 20 of the heaviest polluting factories were ordered to shut down and "drastic" environmental measures were taken at further 36 companies. All over the city sewerage treatment plants are now being built, as are large numbers of low-sulphur emission central heating plants.

Conclusion

In terms of GDP growth and other development indicators, Shenyang lags behind many east coast and western cities. As a result, some Chinese jokingly refer to the city as the capital of China's "rust belt" full of bloated SOEs making products no one wants. Yet this picture is grossly unfair, because the government has been working hard to recapitalise loss-making enterprises, reduce industrial unrest, attract foreign investment and build a first-class infrastructure, while cleaning up the environment to boot. Shenyang has focused on its core strength – manufacturing – and as a result it has built up a critical mass of both domestic and foreign expertise in this area. The city certainly has much potential, and is one to watch over the coming decade.

Tony Brooks is currently a PhD candidate at the University of Cambridge. For more information on Chinese government relations or investing in China please contact Tony at adb57@cam.ac.uk. www.ames.cam.ac.uk/deas/graduates/tony-brooks.html

EURObiz Events

Event information is subject to change. For full details, please visit our website: www.europeanchamber.com.cn/view/events

September

Tue 8th
European Business in China 2011/2012 Position Paper Launch
Kempinski Hotel, Beijing

European Business in China 2011/2012 Position Paper Launch
Westin Bund Centre, Shanghai

Fri 9th
Chinadialogue
Business and Environmental Risk
Hilton Hotel, Beijing

Aerospace Networking Afternoon
European Chamber Shanghai Office

Tue 13th
European Business in China Position Paper 2011/2012 Launch
The Garden Hotel, Guangzhou

European Business in China Position Paper 2011/2012 Launch
Shenzhen

Thu 15th
Healthcare & Pharmaceutical Conference
Shanghai

Suzhou InterChamber Mixer
Intercontinental Hotel, Suzhou

European Business in China Position Paper 2011/2012 Launch
Harbor View Hotel, Zhuhai

Thu-Sat 15th–17th
China-Europe People-to-People Dialogue on Friendship and Cooperation across Space and Time
Renaissance Lakeview Tianjin

Fri 16th
European Wine Dinner Series VII
Goga on the Hai, Shanghai

Fri 17th
Young Professional Networking
Tianjin World Finance Center, Tianjin

Tue 20th
Social Insurance Progress Report
Shanghai

Wed 21st
European Chamber M&A Conference
Beijing

Study: 1000 Chinese Leaders (Characteristics, SOEs vs. MNCs, and vs. other countries), Shanghai

AsiaMould 2011 Guangzhou Int'l Mould & Die Exhibition
Poly World Trade Center Expo (Pazhou)
Guangzhou

Thu 22nd
All-Chamber Networking, Beijing

Full Day Nordic Park/Geely Site Visit
Shanghai

GM Briefing: Doing safe business in China
Tianjin Renaissance Lakeview Hotel

The 8th China International SME Fair 2011 (CISMEF 2011)
Area A, China Import and Export Fair Complex,No.382 Yuejiangzhong Road
Guangzhou

Sat 24th
Beach Cleaning Day
Dameisha Beach, Shenzhen

Tue 27th
Insight China, Beijing

Fri 28th
"The Internet of Things"
The Capital Club, Beijing

October

Thu 13th
Risks Inherent in the Chinese Economy, Shanghai

Fri 14th
European Food & Beverage Celebration Evening
The St. Regis, Tianjin

Tue 25th
EU-China Summit 2011
Tianjin

Ongoing
2011 Photo Contest
Tianjin

7th European Chamber HR Conference 2011/2012 – Beating Limitations

Building on the successful HR Conferences of 2005-2010, the European Union Chamber of Commerce in China's Shanghai Chapter is delighted to be holding its annual 7th HR Conference on 25th November, 2011 at The Longemont, Shanghai. This full-day conference provides attendees with an unparalleled opportunity to obtain insights on the main HR challenges for companies doing business in China for this year and beyond.

The European Chamber HR Conference has evolved into one of the premier gatherings of industry decision-makers and HR professionals. This has given the HR Conference an unrivalled scope of both high-level insight and practical application.

Carrying the title "Beating Limitations", this year's conference will carry an enhanced format drawing input from leading Chinese CEOs and HR Directors alongside the premier European expertise for which the conference has become renowned.

During the conference attendees will have the opportunity to learn more about the many services offered by our sponsors. This event has a reputation for receiving a large turn out of HR directors, HR managers and industry professionals at the full day event.

Tickets are now on sale for just 1000 RMB (Member Price) and 1500 RMB (Non-Member Price).

For ticketing sales, sponsorship opportunities or more information please contact Lawrence Fu at lfu@european-chamber.com.cn / 021 6385 2023 +111. Eb

European Chamber M&A Conference – Beijing

Following the success of a similar event in Shanghai in June, the European Chamber is delighted to host a half-day conference on Wednesday, 21st September from 8:00 am to 12:00 pm in Beijing, where a diverse range of experts, including Chinese and European industry decision-makers, will provide a comprehensive, practical perspective in the field of Mergers and Acquisitions (M&As) in China.

Companies engaging with M&A activities have to consider a variety of aspects including not only environmental incentives, legal frameworks and deal-structuring, but also due diligence, human capital and cultural integration.

Especially important are new developments such as a Supreme People's Court's draft concerning the Anti-Monopoly Law, the recent National Security Review, and the booming number of Chinese companies' acquisitions of foreign companies both in China and at home.

Confirmed speakers include Hans-Rolf Huppert, SVP, Mergers & Acquisitions, Siemens; Warren Hua, Partner, Gide Loyrette Nouel; and Olaf Schick, Head of Mergers & Acqusitions Asia, Daimler AG.

For ticketing sales, sponsorship opportunities or more information please contact Penny Zhang at pzhang@europeanchamber.com.cn / 010 6462 2066 ext. 59. Eb

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING




1.Members of the European Chamber's Advisory Council join European Commissioner for Trade Karel De Gucht (fourth from right) for a dinner in Beijing during the Commissioner's visit to China, 14th July.

2. European Commissioner for Trade Karel De Gucht (right) converses with European Chamber Vice President Jens Ruebbert, 14th July.

3. European Commissioner for Trade Karel De Gucht (center) shares a lighter moment with Claudio Facchin, president of ABB North Asia and China (left) and Joerg Wuttke, Chief Representative of BASF China and former President of the European Chamber.

4. Former European Chamber President Jacques de Boisséson (left) shakes hands with European Commissioner for Trade Karel De Gucht during the Commissioner's visit to Beijing, 14th July.

NANJING


1. On 7th July, 2011, the European Chamber delegation met with Deputy Director-General of Jiangsu Foreign Affairs Office Mr. Zhang Lirong to present the Business Confidence Survey 2011. Among the main topics discussed during the meeting were the new Social Insurance Law and power shortages in Jiangsu province.

2. On 1st July, 2011, Automotive Workshop was held with the topics on New Energy Vehicle. More than 20 member companies participated in the event.

PEARL RIVER DELTA



1. Guangzhou, 21st July, 2011, Madam Ma, former Vice Minister of MOFCOM hosted China Investment Climate Roundtable Meeting in Ritz Calrton Guangzhou. The purpose of the meeting was to exchange views on the investment climate and policies of China.

2. Guangzhou, 27th July, 2011, the Head of the Delegation of the European Union to China, Mr. Markus Ederer and the Ambassador of Poland to China, Mr. Tadeusz Chomicki, visited Guangzhou and met with the European Chamber, PRD Chapter board members.

3. Guangzhou, 8th August. The European Chamber delegation led by PRD Chairman, Mr. Holger Kunz, met with China Entry-Exit Inspection and Quarantine Bureau of Guangdong Province.

4. On 13th July, in Foshan, the PRD Chapter organised an Asytec Factory Tour for European SME members.

5. On 11th August in Foshan, the chapter organised a Speed Meeting for Business Professionals, where people can directly connect with new friends and business professionals quickly in an entertaining and fun environment.

SHANGHAI

1, 2. Half-day Outbound Conference on 7th July. Speakers included Mr. Fu'An Kong from SCOFCOM as well as experts from European companies alongside Chinese companies Fosun, Huawei and Junyao.

3. HR for R&D seminar on 5th July, part of the HR Luncheon Series. Featured speakers included Dr. Piet Derks from Philips Lighting, Naihu Li from Alstom Grid China Technology and Dr. Xiao Chaodong from Akzo Nobel.

4. European Chamber Wine Dinner "The Sunshine of France" on 8th July, which took place at the fine dining restaurant Maison Pourcel.

TIANJIN

1. ICE Exhibition at the Tianjin Astor Hotel.

2. ICE Exhibition in Wellington International School:
Exhibition "ICE, Journey to the Land of Icebergs"- roadshow in various member companies from May until September.

3. GM Briefing: Latest Trend of Employment Market in Tianjin on 13th July:

Monthly networking for GMs and top executives on policy updating and experience sharing.

4. HR Training: Risk management and solutions in regards to labor relations on June 17th:

More than 80 HR leaders from member companies participated this one whole day training program supported by AXA-Minmetals Assurance.

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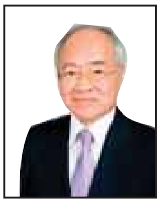
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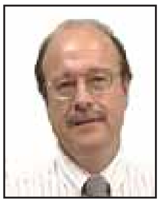
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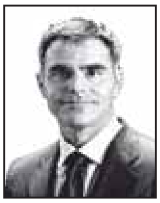
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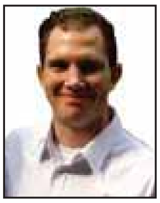
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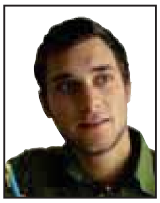
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THE EXECUTIVE INTERVIEW: DUNCAN CLARK

Duncan Clark, Chairman of BDA (China) Limited and Vice-Chairman of the European Chamber's ICT Working Group.

A pioneer in China's telecommunications industry, he co-founded his consulting and investment firm in 1994. Mr. Clark also serves as the Chairman of the British Chamber of Commerce in China.

What don't most people outside of China know about its technological development, especially in regards to Information and Communications Technology (ICT)?

Recent headlines about fake Apple stores in Kunming have shown that Chinese consumers are now able to afford legitimate and pricey consumer electronics.

China's vibrant online content market is less visible to outside observers. Yet so much of what is happening online today is driven by the diversity of Chinese voices online, and the improbable achievements of Chinese entrepreneurs who are catering to them.

Sites such as Sina's Weibo, Tencent's QQ and Alibaba's Taobao offer features or services that are increasingly on a par with or even superior to those of their Western counterparts.

Where is European industry's niche in China's technology market?

As value in the ICT industry shifts from hardware to content, Europe needs to raise its game to ensure that investors, entrepreneurs and established players at home can play a vital role in China tomorrow. Europe has tended to focus on traditional export markets, but many of these will see sluggish growth for years to come.

You've witnessed China's transformation into a tech giant first-hand. What has been the biggest surprise for you?

The growth in China's e-commerce market. In the first dotcom boom, problems with online payments, consumer trust and logistics all seemed like pretty intractable obstacles. Today, buying online in China is an easier and faster experience than in the West, this has happened quickly. The number of jobs created for small business owners is something we could all learn from.

As Vice-Chair of the European Chamber's ICT Working Group, what are some of the policy challenges facing European technology businesses in China?

European companies and investors would benefit from greater market access. In our Working Group, we aim to maintain a healthy dialogue with the relevant Chinese officials over key areas of interest to European interests, in areas such as standards, intellectual property and policy improvements to facilitate a free flow of services and capital. The challenges remain great, but we need the engagement of companies sharing specific cases to let us know how we can try to help.

We hear a lot about China emphasising innovation, but where are we really seeing it in ICT?

Innovation in China today remains principally incremental – tweaking or combining existing business models. However policy makers have focused on state-driven efforts to fast-forward radical innovation, the 'Eureka!' style of breakthrough that is more invention than innovation. For example TD-SCDMA - a 'made in China' standard for 3G – is one example. This has proven to be an expensive distraction. Now however we see a healthier, more pragmatic approach to innovation emerging in China. TD is likely to play a viable role in global 4G deployments thanks to efforts to make it a mainstream component of LTE.

Given its huge number of Internet and mobile users, China's large ICT user base should also mean lots of opportunity. Where do you see those in the next three to five years?

The real opportunity in the future lies in the fact that users will increasingly be using smartphones and tablets, accessing broadband connections at home and on the move. This vital link between connectivity and consumption is where the real opportunity lies in future, not the connectivity per se. Mediating these transactions, whether through selling devices, apps or storefronts, is where the greatest opportunity lies. Eb


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